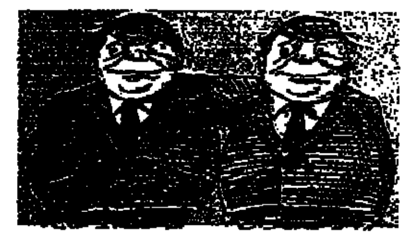
FINANCIAL TIMES

Start the week with...

US politics
A fever of indignation
Patti Waldmeir, Page 23



Marketing/media
Advertising's turf war
Alison Smith, Page 18

Management
UK cut down to size
Page 15

World Business Newspaper http://www.FT.com MONDAY MARCH 10 1997

Formula One set to launch $4bn flotation in July

The planned flotation of Formula One could raise $4bn on the London and New York stock markets and will transform coverage of grand prix motor racing. Outline plans for the offering suggest a global television service generating annual revenues of $1bn-$1.1bn from more than 130 countries. A flotation prospectus may be issued in May, followed by listings in July. Page 25

Briton wins in Australia: Briton David Coulthard in a McLaren-Mercedes won the season-opening Australian grand prix. German Michael Schumacher was second in a Ferrari with Finland's Mika Hakkinen third in the second McLaren. World champion Damon Hill did not start after his Arrows-Yamaha broke down.

UK companies oppose early entry to Emu

British companies are strongly opposed to the UK joining a single European currency at the first opportunity in 1999, according to a Financial Times analysis of opinion in small to medium-sized businesses. But most believe the UK's interests would ultimately be served best by abandoning sterling for the euro, with nearly half expressing support for stronger political and economic links with the rest of Europe. Business and Europe, Page 6; Lex, Page 24

US banks told to reveal Swiss dealings: Lawyers acting for Holocaust survivors served subpoenas on five US banks for all records of their dealings with Swiss banks just before and during the second world war. Page 2

Bank of America plans derivatives link: Bank of America, third largest US commercial bank, plans to link with New York-based derivatives specialist DE Shaw, as part of its effort to develop its capital markets business. Page 25

China 'sought to influence US polls': The US Federal Bureau of Investigation has evidence that China channelled money into the US in an attempt to influence elections, the Washington Post said. Page 3

Mexico attacks money laundering: Mexico is to introduce regulations to curb the laundering of drug profits through its banks and brokerage houses, finance ministry officials said. Page 3

Hanoi to repay $140m to US: Vietnam and the US agreed a debt-rescheduling plan under which Hanoi will repay about $140m once owed to Washington by the former South Vietnam. Page 4

Pace Micro founder to bow out: David Hood, joint founder and chief executive of Pace Micro Technology, will stand aside when a replacement is found to head the UK digital satellite receiver group, which recently issued two profits warnings. Page 25

Jakarta seeks aircraft funds: Indonesia is to sell shares in one of its state-owned aerospace companies to finance the controversial development of a 130-seat Indonesian-made jet. Page 4; German budget threat to Eurofighter, Page 2

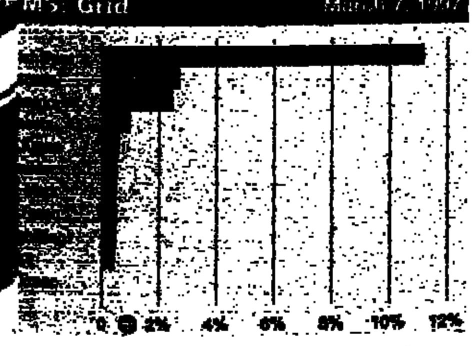
Manila may widen share ownership: The Philippine Securities and Exchange Commission is expected to approve a series of derivatives that would allow foreign investors to buy shares at present limited to local owners. Page 25

Prescription drug sales rise 7%: Sales of prescription drugs in the world's top 10 markets rose 7 per cent to $143.8bn last year, market research shows. Page 3

UPS wraps up passenger deals: United Parcel Service, the world's biggest package delivery company, is to charter some of its 197 aircraft to passenger tour operators at weekends. Seating modules can be put in place in as little as 30 minutes. Page 24

European Monetary System: The Irish punt remained strong at the top of the EMS grid last week, with the French franc taking over from the Italian lira as the grid's weakest currency. Traders said that both the Bank of France and the Bank of Italy intervened in the markets to prop up their currencies during the week. Currencies, Page 31

EMS Grid March 7, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

Lloyd's faces US setback

Appeals court allows Names to sue

By John Authers in New York

Lloyd's of London faces an embarrassing setback to its campaign to repair its reputation after a Californian appeals court ruled that US Names can sue the insurance market under securities fraud and racketeering legislation.

The American Names Association, which brought the case on behalf of up to 574 Names – the wealthy individuals whose capital underpins the market – said total damages payable could be as much as $1bn.

Lloyd's said it would appeal against the ruling which makes no judgments on the facts. Lloyd's said last year's settlement in which it transferred the bulk of its losses to a new giant reinsurer named Equitas would not be affected, and that many Names who originally brought the lawsuit had since decided to settle with Lloyd's.

The judges also used their ruling to criticise the legal redress available to the Names in England, saying "major gaps" existed in English law on securities fraud. They said: "The available English remedies are not adequate substitutes for the firm shields and finely honed swords provided by American securities law."

Mr William Pitt, who represents Lloyd's in the US, said: "We think the decision is erroneous and we plan to take steps to have it reversed." He said lawyers for Lloyd's were likely to ask the appeals court to reconsider its decision, which contradicts several US legal rulings that Names can seek redress only in English courts.

The incident comes just as Lloyd's has started a publicity campaign in the US to repair its reputation and to recruit new corporate members.

The ruling, made in the 9th US Circuit Court of Appeals in San Francisco by judges Mr Charles Wiggins and Mr John Noonan, says clauses in contracts signed by Names agreeing that complaints should be handled by English courts should be voided because they violate US securities laws passed in 1933 and 1934.

Describing Lloyd's as "a business corporation so powerful that it has obtained from the British legislature substantial immunities," the judges said: "A plain, speedy and adequate remedy for the wrongs alleged by the plaintiffs is not shown to exist in Britain." They reversed a southern Californian district court's decision in April 1995 to dismiss the Names' securities fraud and racketeering charges, and remanded the case to a district court in San Diego.

A third judge, Mr Alfred Goodwin, published a strongly worded dissent. He said the same reasoning could provide protection for Americans who lost money betting on chicken fights in Mexico, and that English law provided an "adequate remedy".

The Names allege they were defrauded by being placed on syndicates which reinsured asbestos and toxic waste claims, or had a heavy concentration of risks due to reinsurance. They say Lloyd's knew the syndicates carried big liabilities but did not disclose them.

Mr Jeffrey Peterson, executive director of the association, said the ruling recognised that "when a foreign enterprise engages in widespread sales activities in the US, Congress prohibits that enterprise forcing the investors to waive their rights under the federal securities laws."

Top Italian groups agree textile merger

By Paul Betts in Milan

Two of Italy's largest private sector companies – HPI, the industrial portfolio of the Gemina investment holding, and Marzotto – are to merge, forming one of Europe's biggest textile and clothing companies with sales of L8,200bn ($4.82bn).

The deal will create an industrial conglomerate with 21,000 staff and will incorporate such brands as Hugo Boss, Fila and the Gruppo Finanziario Tessile, which manufactures clothes for leading designers such as Armani, Ferre and Prada.

Gemina's RCS publishing arm, which owns Rizzoli and Milan's Corriere della Sera newspaper and a 20.9 per cent stake in the Cartiere Burgo paper manufacturer, will give the merged group a strong presence in publishing and paper.

The merger was announced on the eve of today's stock market debut of Holding Partecipazioni Industriali, the company born from the split of Gemina's industrial and financial interests.

Gemina said HPI with Marzotto would become Gruppo Industriale Marzotto through a share swap involving 13 HPI *ordinary shares for one Marzotto* share and 8 HPI savings shares for one Marzotto savings share. On completion, the merged group will be headed by Mr Pietro Marzotto, chairman of the family-controlled textiles and clothing group, with Mr Maurizio Romiti, a senior executive of the Mediobanca investment bank and son of Mr Cesare Romiti, chairman of the Fiat car group, becoming managing director.

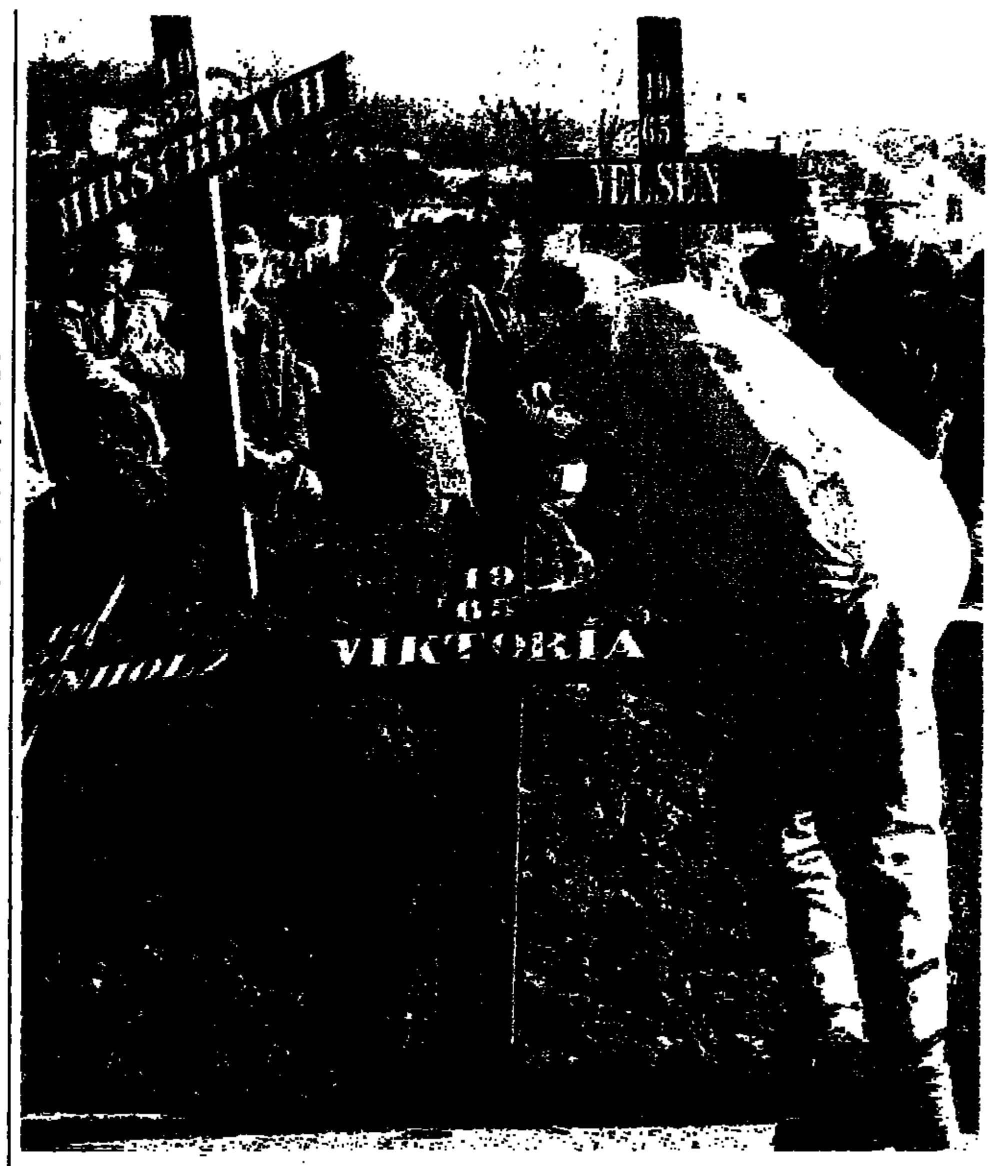
It will be controlled by a Who's Who of the "Salotto buono" – some of Italy's most influential private sector business empires – including Fiat, Mediobanca, Italmobiliare, Assicurazioni Generali, Pirelli and the Lucchini steel group.

This hard core will control about 45 per cent of the new company but this could fall to about 40 per cent with Fiat and Mediobanca relinquishing part of their respective stakes to allow new hard core investors to acquire an interest.

The timing of the announcement of the deal, orchestrated by Mediobanca during the past six months, reflects Gemina's concern not to repeat the fiasco of two years ago when it attempted an ambitious merger with Ferruzzi Finanziaria (Ferfin), the former financially troubled empire of the late Mr Raul Gardini.

Gemina has since been

Continued on Page 24



German miners, blocking a road near the town of Gersweiler during a protest against plans to slash coal subsidies, lay crosses with the names of closed mines
Report, Page 24 Picture: AP

Brussels looks at tightening rules on subsidies

By Neil Buckley in Brussels

Companies could be prevented from "shopping around" for state or European Union aid under proposals being prepared by the European Commission.

The EU's Brussels executive wants to stop businesses relocating from one member state to receive subsidies in another, or "hopping" between zones that are eligible for aid and collecting subsidies several times.

The commission's concerns have been brought to light by the case of Renault, the French carmaker, which has attempted to win approval for state aid to modernise a plant at Valladolid, Spain, after announcing the closure of a profitable Belgian factory with the loss of 3,100 jobs.

"We have got to look at migration between assisted and unassisted regions," the commission said yesterday.

"We are looking at putting in place rules to control this."

Mr Karel Van Miert, competition commissioner, is expected to present proposals within months, a reflection of the concern in Brussels. Mr Jacques Santer, commission president, warned at last week's meeting of the 20 European commissioners, where the Renault case was discussed at length, that it was vital for tighter rules to be introduced.

Officials admit the commission cannot interfere in commercial decisions, but is examining ways of preventing companies from benefiting from aid – at least at full levels – more than once within a certain timeframe.

Another possible measure would be to seek guarantees from companies receiving aid that they would keep factories open for a minimum period.

In addition to the proposals due from Mr Van Miert, the commission is likely to seek to introduce such measures in its review of the system of

Continued on Page 24

Albanian leader gives in to calls for unity government

By Guy Dinmore in Tirana

Albanian President Sali Berisha yesterday bowed to opposition demands to form a broad-based government of national unity, and to call parliamentary elections by June as he struggled to head off the threat of civil war.

Mr Berisha also gave rebels who have seized several towns in southern Albania a further week to hand in their weapons under a general amnesty, extended from yesterday.

In the capital Tirana, opposition parties dominated by the former communists welcomed the agreement, but said they had only limited influence over the rebels who have demanded Mr Berisha's resignation as the price of laying down their weapons.

Mr Blendi Gonxhja, a spokesman for the opposition umbrella group Forum for Democracy, said the group was "very worried" whether the agreement would be accepted in the south.

The opposition would try to bring rebel representatives from the south to sign it.

The pact, clinched after two days of talks and mediation by senior European emissaries, came after Mr Berisha abandoned his refusal to involve the Socialist party in the interim government.

The socialists – who are heirs to the former ruling communists – have boycotted parliament since fraudulent elections last May gave Mr Berisha's right-wing Democratic party an overwhelming majority.

Mr Berisha imposed a state of emergency last Sunday, when parliament voted him a second five-year term in office.

More than 20 people have died in the insurrection in southern Albania, which was sparked by the collapse in January of fraudulent investment schemes in which many people lost their life savings. Rebels blame the government for the crisis.

Armed protesters in the south fired in the air to celebrate Mr Berisha's climbdown, broadcast on national television. "I think the Albanian parliament should declare a general amnesty for all those involved in the revolt . . . including civilians and army personnel," Mr Berisha said.

"Sunday should be declared a day of national mourning and prayer for all those who died," he added.

"We should declare a platform of national reconciliation, which Albania needs now more than ever. The politicians should go beyond their political interests."

Mr Berisha said the new government should immediately start negotiations with neighbouring countries and international organisations to help restore damage caused by the unrest.

The Albanian president has largely lost control over the army.

He is relying on police and the security apparatus to enforce the state of emergency.

Albanian rebels strengthen grip; Greece eyes crisis, Page 2

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Brussels stalls on chip duties

By Neil Buckley in Brussels

The European Commission is refusing to comply with its obligation under EU law to reimpose anti-dumping duties today on the biggest-selling type of semiconductors from Japan and South Korea in an attempt to avoid turmoil in the European market, which is worth $6bn a year.

The anti-dumping measures on D-Ram chips will be re-introduced progressively so they will not be fully in force until June. By then, the Commission hopes, a review of the measures will have been made and ministers will have decided to abolish or reduce them.

Re-introduction of the duties is bitterly opposed by east Asian manufacturers which, like semiconductor makers worldwide, are facing an 80 per cent slump in D-Ram prices and being forced to sell below cost. D-Rams, or dynamic random access memory chips, are the basic chips used in every kind of intelligent electronic device from PCs to video recorders.

The Commission is caught in an embarrassing legal trap since a maximum 21-month suspension of the measures – first imposed in 1990 for Japan and 1993 for Korea – should, under EU law, have expired today. That would have produced an overnight leap in Asian import prices.

An EU review of the measures was delayed by US-Japan talks on a semiconductor agreement last summer, and talks on an international Information Technology Agreement to cut tariffs and improve market access in Singapore last December. The review will not be completed until summer.

Korean and Japanese manufacturers last week threatened to withdraw supplies if measures were re-applied today, throwing the European market into chaos. EU electronics groups which use the chips have similarly pleaded against the measures.

"We are in a terrible situation," said one Commission official. "Legally the suspension is over and we have to apply the old system. But in the meantime, prices have slumped. It is a very bad market situation."

The Commission's compromise, which it believes it can defend legally, is to do nothing today, but re-introduce measures in three stages, in April, May and June. By then, Japanese and Korean importers will have to sell D-Rams in the EU at cost price plus a double-digit profit margin. But the Commission hopes the review will be nearing completion and ministers will decide whether to abolish or cut them.

Anti-dumping duties of 60 per cent were imposed on Japanese D-Rams – in one of the largest and most controversial cases handled by Brussels – in July 1990. Undertakings to sell at minimum prices were also sought from 11 manufacturers after the Commission found evidence of widespread dumping on the European market.

These were followed by 24.7 per cent duties on South Korean imports, and price undertakings from six manufacturers, in March 1993. In practice, the duties themselves were rarely imposed, since most imports came from the manufacturers which had given price undertakings.

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Albanian rebels strengthen grip

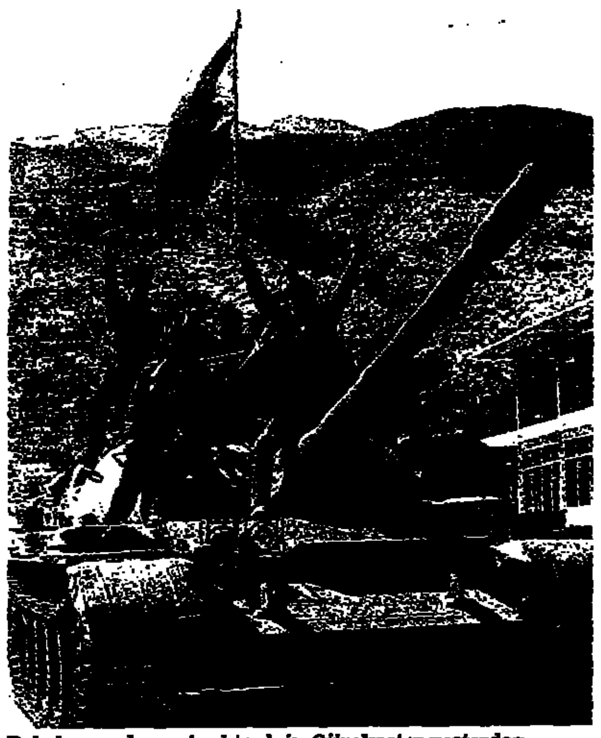
By Guy Dinmore in Ballsh, Albania

Rebel forces strengthened their grip on southern Albania yesterday, sending bands of fighters northwards to the oilfields surrounding the town of Ballsh, where western companies are planning joint exploration and drilling projects.

The rebels have moved to within about 100 km of the capital Tirana and residents of Ballsh said they were ready to join anti-government forces once they reached the town, the site of an oil refinery. Gunfire could be heard there overnight and residents said some members of the local police force were resisting reinforcements sent from northern Albania by President Sali Berisha.

Mr Berisha's announcement yesterday that he was willing to form an interim coalition government appeared unlikely to stop the rebel advance, however, and the opposition parties admit they have no control over the insurrection.

Just hours before Mr Berisha spoke, the hills around Ballsh echoed with sporadic machine gun and artillery fire. About 150 troops and police, backed by four old Russian tanks, held the road in a vulnerable valley just south of the town.



Rebels parade a seized tank in Gjirokaster yesterday Reuter

The government has lost control over about a tenth of Albania and cannot count on the allegiance of its own army and police forces in the south. Rebels took over the southeast town of Gjirokaster and seized tanks and heavy weapons from a big army base there at the weekend, driving off a helicopter attack.

The unrest in southern Albania was triggered by the government's closure in January of fraudulent pyramid investment schemes which had sucked in the life's savings of many people. The popular revolt threatens to reawaken ancient north-south ethnic enmities in Albania and plunge the country into civil war, only five years after the end of more than four decades of communist rule.

Twisting ravines and steep, terraced hillsides provide ideal terrain for guerrilla warfare around Ballsh. Hundreds of oil wells dot the wider valleys, polluting fields and rivers with their spillage.

The international oil industry has invested more than $150m in oil and gas exploration in Albania since the early 1990s. The southern revolt threatens to dash the government's hope of building an economic lifeline for the future.

Premier Oil of the UK is engaged in joint development of the Patos Marinza oil field, which it has described as "the largest onshore oil field in Europe in terms of original in-place reserves".

The Australian Kitari group has an agreement on enhanced oil recovery in the Ballsh-Hekal field.

The government had hoped to agree on concessions in the second onshore licensing round by June. Albania imports around 50 per cent of its oil following a sharp decline in production since the early 1980s to 500,000 tonnes a year.

Villagers who have taken up arms in Fratar, the northernmost front line, said they were ready to fight to the end if Mr Berisha abandoned his declared policy of seeking a peaceful solution to the conflict and sent in the army.

Greece eyes crisis over the border

A steady flow of frightened Albanian women and children into Greece at the weekend has underscored fears that any attempt by the Albanian army to recapture the southern border region from armed rebels would trigger a massive exodus of refugees into northern Greece.

Members of the ethnic Greek minority in southern Albania were among family groups pushing on to ferries leaving the rebel-held port of Sarande for Corfu or arriving at the Kakavia frontier post, often without valid passports or visas.

Mr Yannos Kranidiotis, Greek deputy foreign minister, flew to Tirana on Saturday to offer humanitarian assistance and reinforce European pressure for an early general election to resolve Albania's mounting political crisis.

Like the envoys from the EU and the OSCE, he urged President Sali Berisha to extend yesterday's deadline for the rebels to hand over their weapons and to sanction an all-party government to prepare for the vote.

But Mr Kranidiotis also stressed particular Greek concerns about a mass emigration by desperate Albanians and the safety of ethnic Greeks in Sarande and surrounding villages. Greek-owned homes and businesses have been attacked by armed gangs and there are fears that the minority may become a scapegoat for the Albanian authorities.

"The political situation will clearly take some time to resolve. We're worried that in the meantime militant opposition groups and local criminal elements will become entrenched in a zone up against our border where many Greeks live," a senior Greek official said yesterday.

Albanians flocked across the border after the Stalinist regime collapsed in 1991 and are now predominant among the eastern European immigrants who make up over 10 per cent of Greece's labour force.

More than 250,000 Albanians work in Greece, mainly in the underground economy on farms and construction sites.

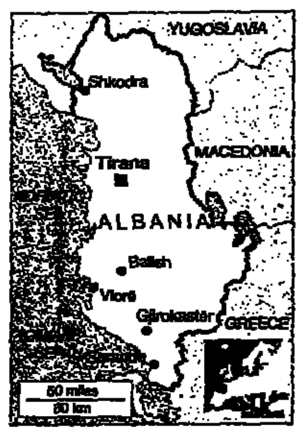
The $500m the Albanians send home each year in goods and remittances underpins flourishing cross-border trade as well as a substantial volume of smuggling across the mountainous border and by speedboat to Sarande, according to Greek border police.

Greece is the second-largest investor in Albania after Italy, with more than $60m mainly in small-scale joint ventures in agro-processing, clothes and textile manufacturing and construction.

Improved political relations have brought the opening of two Greek banks in Tirana, which have seen deposits soar in both lek and foreign currency over the past two weeks as Albanian companies sought a haven for their funds.

Increasing lawlessness in the past few days has forced small Greek companies with a precarious foothold in retailing and contract manufacturing of clothes around Sarande to close.

Greek-owned shops and factories were looted at the weekend but the crisis is not expected to deter Titan Cement, a large Greek producer listed on the Athens bourse, from bidding today and tomorrow for 70 per cent stakes in a cement factory and quarry at Elbasan in central Albania, which are due to be privatised in separate auctions at the finance ministry in Tirana.



"We're worried about the situation in Albania, we want to renegotiate the bidding terms, and we have scarcely any official information about the company, let alone a financial statement," says Ms Alexandra Papalexopoulos, Titan's director of strategic planning.

Greek investors have benefited from their Socialist government's determined efforts to improve relations after an extremist Greek nationalist group staged a border incident in 1994 in which three Albanian conscripts were killed.

A friendship treaty was signed last year and Greece is preparing to offer temporary work permits for up to 150,000 Albanian immigrants a year. The Greek government has been less successful in allaying Albanian suspicions after the border incident that Greece's former territorial claim on much of southern Albania could be revived.

Unlike their Italian and Kuwaiti counterparts, Greek hotel companies and food processors have been unable to buy land on the southern coast, while Greek banks have not yet been allowed to open a branch in a southern town.

Nonetheless, Greek investors are preparing for the long haul. The Euromerchant Albania Fund, a new venture capital fund which includes the European Bank for Reconstruction and Development among its investors, has received commitments of $15m, against a target of $10m.

The fund is sponsored by Euromerchant Bank, a private Greek bank controlled by the London-based Latsis shipping group.

Kerin Hope

US banks get subpoenas on Swiss links

By Norma Cohen in London and William Hall in Zurich

Five of the largest US banks have been served with subpoenas for all records of their dealings with Swiss banks just before and during the second world war by lawyers acting for Holocaust survivors.

The subpoenas, filed late last week, ask Citibank, JP Morgan, Bankers Trust, Bank of New York and Chase Manhattan Bank to hand over all documents relating to assets transferred to and from Union Bank of Switzerland, Credit Suisse and Swiss Bank Corporation between 1933 and 1946. They also seek documents showing details of any correspondent relationships between the five US and three Swiss banks, and documents concerning the US banks' policies on document retention.

The subpoenas are the latest in a series of motions in a class action accusing the Swiss banks of collaborating with Nazi Germany by laundering stolen money, jewellery and art treasures during the second world war.

The three banks face three separate class actions in the US. One has been launched by Mrs Gizelle Weisshaus, who lost most of her family in Auschwitz, and another by the World Council of Orthodox Jewish Communities.

The case that most concerns the banks is one launched by Mr Michael Hausfeld, partner at Cohen, Milstein, Hausfeld & Toll, the Washington DC law firm. The firm, which won the recent $176m racial discrimination case against Texaco, specialises in high profile class actions.

Mr Hausfeld says his lawsuit is as much a quest for history as it is for compensation. "It's information we're after, not just redress."

The Swiss banks have until April 15 to respond to the initial lawsuit and have already indicated that they intend to challenge it.

The banks had hoped that their decision to set up a SFr265m ($180m) special fund for Holocaust survivors, combined with the Swiss government's planned SFr7bn foundation to alleviate human suffering, might be enough to end the US litigation.

Mr Rainer Gut, chairman of Credit Suisse, indicated last week that he would consider an out-of-court settlement if the legal proceedings could be brought to a swift conclusion. However, Mr Hausfeld said any out-of-court settlement would have to include provision of documents.

EUROPEAN NEWS DIGEST

German adds to Emu doubts

Mr Herbert Hax, head of the German government's council of economic advisers, has joined the chorus of voices urging Bonn to delay the start of economic and monetary union.

"If you take the stability criteria seriously, Germany will probably not be ready to introduce the euro as planned in 1999," he told the Bild am Sonntag newspaper at the weekend. "Either you ease the criteria – in which case you must announce that now – or Germany will be ready for the euro later."

Mr Hax said it was "unfortunate" that politicians had made the possibility of delaying Emu a taboo. The truth, he said, was that "stability is more important than the date". Germany and other EU states should introduce the euro in 2000, one year later than planned.

His remarks earned a swift rebuke from the finance ministry, which pointed out that the decision on the countries starting the single currency in 1999 depended on economic data that would only be available next year. Mr Hax was initiating an improper discussion and hindering budgetary consolidation. *Peter Norman, Bonn*

Santer hits at Renault closure

European Commission president Jacques Santer said yesterday the French government could have intervened to prevent Renault, the carmaker, from suddenly closing its Belgian plant and laying off 3,100 workers.

Mr Santer told France-2 television in an interview that the way Renault announced its decision had dealt a serious blow to the spirit of European unity.

The centre-right government, main shareholder in Renault, "could definitely have intervened" through its representatives on the management board.

"The spirit of confidence which is the very basis of European construction, which aims to be not only a market but also a market based on a certain solidarity and on social cohesion, has definitely suffered a serious blow," Mr Santer said. *Reuter, Paris*

Chirac call to Latin America

President Jacques Chirac of France said yesterday on the eve of a tour of Latin America that the region's economic future lay not in ties with with the US but with Europe.

"Latin America understands perfectly that it is not in its interest to lock itself into exclusive regional integration," Mr Chirac told Radio France Internationale in an interview.

"Its vocation is not to be a piece of Nafta [North American Free Trade Agreement]. Its vocation is to be . . . open to the world, and its essential economic interest, trade, investment, aid, is not with the United States but towards Europe," Mr Chirac said.

He noted that the European Union was the main trading partner, biggest investor and most generous development aid donor for Brazil, Uruguay, Paraguay and Argentina, the four members of the Mercosur customs union which he will visit from tomorrow. He will also visit Bolivia.

"The future of Latin America is not with the North/South axis, it is with Europe for reasons linked to history and culture . . . ," Mr Chirac said. *Reuter, Paris*

Bulgaria to buy grain

Bulgaria is to restructure an unused World Bank credit line and use about $30m to buy grain to help cover its wheat shortage.

Mr Roumen Hristov, agriculture minister, said in an interview that agreement on the credit meant Bulgaria now needed only 70,000 tonnes to cover the gap until the next harvest, which he expected could be negotiated from Hungary, Germany or Romania.

He expected to buy about 170,000 tonnes of grain with the credit and hoped deliveries could start by mid-May.

Bulgaria's interim cabinet, which took office on February 13, inherited an acute grain shortage after uncontrolled exports two years ago depleted supplies. A poor harvest last year was attributed to bad weather and a lack of cash for fertilisers. *Reuter, Sofia*

Prodi pledges staying power

Mr Romano Prodi, Italy's prime minister, insisted yesterday that his government would last a full term, despite doubts expressed by one of his key allies.

"I am absolutely convinced that this government will last, that it has reinforced its presence in these months," Mr Prodi told reporters at a gathering of his centre-left Olive Tree coalition in Gargonza, central Italy.

Mr Fausto Bertinotti, leader of the hard-left Communist Refoundation party, said in an interview published yesterday that he reckoned Prodi's administration would not manage to set a precedent in Italian post-war politics by lasting a full five-year term.

Mr Prodi, in office for 10 months, relies on Mr Bertinotti's party for a majority in the Chamber of Deputies (lower house). The relationship has often been fractious but Mr Prodi has said there will be no change to the ruling majority. *Reuter, Rome*

German budget threat to Eurofighter project

By Peter Norman in Bonn

Budgetary problems in Germany are posing a new threat to the Eurofighter, the joint project of the UK, Italy, Spain and Germany for a new generation of combat aircraft.

The finance and defence ministries in Bonn have failed to agree financing for Germany's acquisition of 180 of the aircraft from 2002 onwards. The two ministries are at loggerheads over DM2bn ($1.1bn) which they had earlier agreed to provide to cover interim costs. This is delaying a cabinet decision to order the aircraft.

The defence ministry is prepared to provide its DM1bn share, but the finance ministry does not want to make a commitment until it has a clearer view of expenditure trends this year and next.

Mr Theo Waigel, the finance minister, has backed Eurofighter as a necessary replacement for Germany's 40-year-old Phantom aircraft. But he wants to see whether it can be afforded in the light of the government's plans to cut taxes and meet the Maastricht criteria for economic and monetary union.

Eurofighter has sparked inter-ministry row

Mr Theo Waigel, German finance minister, yesterday warned the opposition Social Democratic party that he would go ahead with plans for tax reform irrespective of whether the SPD resumed talks with the government on the issue, writes Peter Norman. The SPD called off tax talks with the Bonn coalition at the weekend in protest at government plans to cut federal coal subsidies from DM9bn ($5.25bn) a year to DM3.8bn in 2005.

The defence ministry yesterday refused to comment on reports that Mr Waigel wanted to delay the Eurofighter decision until the autumn, while the finance ministry said only that talks between the ministries and with the industry were continuing.

Mr Volker Rühe, the defence minister, yesterday signalled that he had given up hopes of an agreement in the current quarter. In an interview with yesterday's Frankfurter Allgemeine Sonntagszeitung, he said he expected decision-making to get under way "at the latest after Easter, in April".

The government would have to make its final decision before the summer, when it drew up the federal budget for next year, he told the newspaper. The defence minister insisted that Germany needed the new fighter from 2002.

Chubais appointment gets mixed reaction in Russia

By Chrystia Freeland in Moscow

Russian liberals have welcomed President Boris Yeltsin's appointment of Mr Anatoly Chubais as first deputy prime minister at the weekend, saying that his return to the cabinet would revive the country's ailing market reforms.

The Communist opposition fiercely criticised the appointment of the man they have demonised for pushing through Russia's mass privatisation. But reformers are hoping that Mr Chubais, a talented and single-minded administrator who spearheaded privatisation and masterminded the re-election campaign of Mr Yeltsin, will bring a renewed sense of direction to the government's muddled economic agenda.

Mr Yegor Gaidar, a long-time ally of Mr Chubais who collaborated with him in writing last week's presidential address, believes the appointment "has increased the likelihood that the government will prove capable of implementing thought-out reforms".

"The absence of Mr Chubais from the government very seriously affected the cabinet's ability to conduct thought-through economic policies of any sort," said Mr Gaidar, a former premier who in recent weeks has sharply criticised the government's performance.

Mr Chubais was dropped from the cabinet early last year, as Mr Yeltsin sought to distance himself ahead of the July presidential ballot from the man most closely associated with painful market reforms. After Mr Yeltsin's re-election Mr Chubais returned as Kremlin chief of staff, a job which gave him tremendous political power but little direct influence over the economy.

However, analysts warned Mr Chubais's effectiveness in the cabinet would depend very much on who occupies the key economic ministries and his relationship with Mr Victor Chernomyrdin, the prime minister, whose authority could be eroded by Mr Chubais's arrival.

The speculation in Moscow is that a pack of Mr Chubais's young and intensely loyal protégés will join him in the cabinet. The new first deputy prime minister hinted as much, saying after his appointment: "I have a strong team of like-minded professionals."

Chubais: return to cabinet would revive ailing market reforms, said Yeltsin

Tactfully, Mr Chubais also pointed out that the government was already headed by "an experienced leader, Victor Chernomyrdin".

Mr Chubais's appointment predictably prompted a venomous reaction from the Communists. Mr Valentin Kuptsov, the party's senior ideologue, said the appointment was "more than negative, and more than unacceptable for the opposition... the name of Chubais for us has become simply a swear-word."

Mr Alexander Shokhin, a liberal deputy speaker of parliament, predicted the Communists, who dominate the legislature, would try to force a vote of no confidence in the cabinet in the wake of Mr Chubais's return. But attacks from the left, or from the public, which tends to blame Mr Chubais for the hardships of the transition to a market economy, were muted by the clever timing of his appointment.

The Kremlin waited until late on Friday afternoon before announcing the widely expected decision to move Mr Chubais back to the cabinet.

Saturday was International Women's Day, one of Russia' most cherished public holidays. Festivities will continue today, which has been declared a national holiday, and many newspapers will not re-appear until Wednesday.

In the midst of the cabinet shuffle, Mr Javier Solana, Nato secretary general, arrived in Mscow yesterday for a private meeting with Mr Yevgeny Primakov, the foreign minister. The two were expected to discuss an accord between the western military alliance and Russia which could ease the Kremlin's discomfort at the prospect of Nato's eastward enlargement.

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'Unpatriotic' buyers lie low

John Burton on a difficult climate for imported goods in South Korea

Western diplomats are complaining that the Seoul government is breaking international commitments on market opening by secretly supporting a grassroots "frugality" campaign that is hurting sales of foreign products in South Korea.

Businesses and citizens' groups began boycotting foreign products after President Kim Young-sam last year called for an end to "luxurious consumption" in response to an economic slowdown, a record current account deficit of $23.7bn in 1996, and foreign debts of more than $100bn.

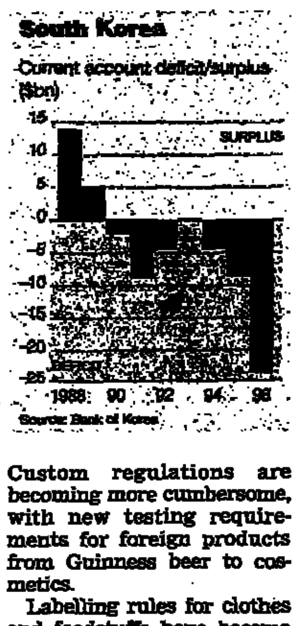
Government officials claim Seoul is not officially supporting the anti-import campaign and thus is not liable to complaints that might be filed with the World Trade Organisation by the US or the European Union. "The frugality campaign is the result of private efforts by businesses and citizens' groups," said the foreign ministry. "If there is any official involvement, it is coming from zealous low-level bureaucrats."

Nonetheless, western diplomats blame the government for the slump in sales of foreign goods. "The government is creating a climate of intimidation by suggesting that Koreans who buy foreign consumer products are contributing to the trade deficit and thus are unpatriotic," said one.

Monthly sales of foreign cars fell from a peak of 1,137 vehicles in July 1996 to 618 by December. Sales of imported whisky were down by 10 per cent during the first two months of 1997.

The problem for western governments is finding evidence that would directly implicate the government in the anti-import campaign. Korean officials are normally careful not to make public criticism of imported products when discussing the frugality campaign. But when they are quoted in the domestic media as doing so, they "claim – when challenged – they were misquoted or mistranslated", a recent EU memorandum noted.

The nation's six largest trading houses operated by Samsung, Hyundai and others have promised to stop or limit imports of foreign consumer products this year. Despite official denials, there are signs that the government is at least indirectly trying to hamper imports.



Source: Bank of Korea

Custom regulations are becoming more cumbersome, with new testing requirements for foreign products from Guinness beer to cosmetics.

Labelling rules for clothes and foodstuffs have become more complex. European clothing can no longer carry a plain "Made in the EU" label but must specify the country of origin.

What puzzles western diplomats is why Seoul is risking the ire of its trade partners by encouraging the frugality campaign. Although the government estimates that imports of products classified as "luxury goods" grew by 48 per cent to $2bn last year, they accounted for only 8.8 per cent of total imports. The government definition of luxury goods includes electronic products, home appliances, cosmetics, golf clubs, clothing and cars.

Moreover, economists warn that any efforts to damp consumer spending could rebound by slowing growth. With industrial investments sluggish, private consumption has become one of the main engines for economic growth this year. If that slows down, gross domestic product growth could amount to 5 per cent, the lowest rate in almost 20 years.

Foreign representatives in Seoul believe that imported products are being used as a scapegoat for South Korea's economic problems. "To try to suggest that the reason for Korea's current account deficit in 1996 lies in the import of consumer goods flies in the face of economic realities," said Mr Tim Holmes, chargé d'affaires at the UK embassy.

He blames a sharp decline in global prices for main Korean export products, higher import costs due to the depreciation of the Korean currency and growing production costs that have harmed Korea's international competitiveness.

A recent study by Seoul's central bank concluded that Korea's failure to create a capital goods industry had been a main cause for its persistent trade deficit, as it needs to import most of its machinery.

But political and social factors may be an important motive for the frugality campaign. Officials have often argued that conspicuous consumption of foreign products by the wealthy elite provokes class antagonism among egalitarian-minded Koreans, particularly during economic downturns.

Excess consumption "creates a sense of social disharmony and provides a revolutionary cause of evil to left-leaning elements in our society", said Mr Oh Ho-suk, head of the Korean Central Council of Nightspot Operators, justifying his organisation's boycott of foreign liquor and cigarettes.

If such attitudes are prevalent, it bodes ill for proposed market reforms that are needed to make Korea's state-dominated economy more efficient, but which are also likely to lead to greater social inequality.

Vietnam and US line up deal on debt

By Jeremy Grant in Hanoi

Vietnam and the US have reached agreement in principle on a debt-rescheduling plan under which Hanoi will repay about $140m in arrears once owed to Washington by the former South Vietnam.

US officials left the Vietnamese capital at the weekend after negotiating the deal, which still needs final approval from both governments before it comes into force.

A statement issued by the officials said no date had been set for a signing.

Vietnam has about 20 years to clear the debt, about half of which is interest arrears. Terms are understood to be concessional.

In 1993, the Communist authorities in Hanoi agreed to assume the so-called "social and economic" debts of the US-backed Saigon regime when it concluded a loan repayment package with multilateral – or Paris Club – donors.

Those debts stem from humanitarian and development funding extended to Saigon for the installation of power stations, the construction of roads and shipments of grain during the Vietnam war.

Vietnam's 1993 commitment did not include an unspecified amount of "military debt" owed to Washington by Saigon.

Property claims by each government on the other were settled in 1995, the year in which the former foes established full diplomatic ties.

The resolution of the decades-old debt problem will move Washington one step closer to a trade agreement with Vietnam. Such a pact is one of the final steps necessary for fully normal relations between Washington and Hanoi.

The first US ambassador to Vietnam, a former Vietnam war prisoner, Mr Douglas "Pete" Peterson, is expected to take up his post in early April.

Dissidents claim Beijing bus bombing

By Tony Walker in Beijing

Moslem dissidents from China's far-west Xinjiang region have claimed responsibility for the bombing on Friday of a crowded bus in Beijing.

China denied initial reports that two people were killed, saying no one died in the blast during the evening rush hour near the city's leadership stronghold. A number of people were wounded, several seriously.

Beijing newspapers yesterday blamed the bombing on "criminal elements", saying they had used a home-made explosive device. The authorities have offered a reward for information leading to arrest of the perpetrators.

Security has been tightened across the capital, with additional police on patrol in Beijing's central Tiananmen Square and around tourist sites. Taxi drivers have been told to be on the look-out for people from Xinjiang acting suspiciously.

Chinese media have not ascribed blame but the Beijing attack follows three bus bombings late last month in Urumqi, capital of Xinjiang, home of a nationalist movement.

Exiled ethnic Uighurs who are pressing for an independent state of "East Turkestan" in Xinjiang claimed in a message to Taiwan's official Central News Agency: "The bus explosion in Beijing city... is the only way for the Xinjiang Uighur people to take revenge against communist China's oppression."

The message was issued by the Turkey-based Organisation for Turkestan Freedom, one of a number of Uighur dissident groups.

Western officials said that, while there was no direct evidence linking the Uighurs with the Beijing bombing, there was a strong possibility Islamic extremists were responsible. An official described the bomb blast in Beijing as a "worrying development".

Uighurs make up about 60 per cent of Xinjiang's population of 16m. Friction between the local population and Chinese officials is increasing and China has launched repeated crackdowns on nationalist activity.

Beijing authorities have admitted this was the second bombing in Beijing in about a week. No one was hurt in the other incident.

Aerospace shares go on sale in attempt to finance jet development

Jakarta to start raising aircraft funds

By Manuela Saragosa in Jakarta

The Indonesian government will this week start selling shares in one of its state-owned aerospace companies to raise funds needed to finance the controversial development of a 130-seat Indonesian-made jet aircraft.

The project has been dogged by financing problems and the offering is widely viewed as an attempt of last resort to secure its future.

Dua Satu Tiga Puluh (DSTP), a company headed by President Suharto, will start offering around 1.17m shares to the public tomorrow but they will not be listed on any stock exchange.

The public offering will continue to around the year 2006 and government officials expect it to raise the $2bn needed to develop the aircraft – known as the N-2130.

"In the long term it might be necessary to list the shares on the Jakarta or Surabaya stock exchange. But for the time being there is no such plan," Mr Saadilah Mursid, DSTP's president, said late last year. He added that the company was still studying how the shares would be traded.

President Suharto decreed last year that the N-2310 would be financed entirely by the private sector, following criticism that the country's first all-Indonesian aircraft, a 70-seat turbo prop aircraft known as the N-250, was an expensive and unviable project.

Development of the N-250 was funded from state coffers.

Controversy intensified after President Suharto signed a decree allowing money from a government-run reforestation fund to be transferred to the state-owned aircraft manufacturer Industri Pesawat Terbang Nusantara (IPTN).

Shares in DSTP, set up separately to develop the N-2130, will be placed privately. Buyers are expected to include some of the country's wealthiest companies, businessmen and state corporations. There is no underwriter for the offer and a prospectus was not immediately available.

DSTP will offer 774,398 shares, with a nominal value of Rp2.3m ($960) per share, at Rp2.4m each. A further 400,000 shares, with a nominal value of Rp5,000 each, will also be sold at Rp5,600 per share.

Indonesia intends to break into the world aerospace market in projects spearheaded by Mr Jusuf Habibie, minister of research and technology.

Last year IPTN, of which Mr Habibie is president, formed the American Regional Aircraft Industry (AMRAI), a company headed by Mr Brian Rowe, the former vice-president of General Electric Aircraft Engines.

According to Mr Habibie, the N-250 will eventually be assembled in the US and AMRAI will market it throughout the Americas.


Suharto: insisted on private sector financing for development of the N-2310

China eases path to review of Tiananmen

By Tony Walker

The Chinese parliament has approved a revision to the criminal law which deletes "counter-revolutionary" statutes under which many of the pro-democracy demonstrators at the Tiananmen Square protests in 1989 were charged.

The move comes less than two weeks after the death of Deng Xiaoping, China's paramount leader, who ordered the Tiananmen crackdown. It appears to lay the groundwork for a possible reappraisal of the Tiananmen massacre, in which several hundred demonstrators died at the hands of the security forces.

But Chinese legal scholars and western officials caution that because of political sensitivities it may be several years before a Chinese leadership feels confident enough to deal with the legacy of Tiananmen Square.

Many of those sentenced to long jail terms after the incident were charged as counter-revolutionaries. The protests were deemed a counter-revolutionary "rebellion".

Mr Qiao Shi, chairman of the Standing Committee of the National Peoples Congress, the parliament, is known to favour a thorough review of Tiananmen Square but recognises that such a process will be highly sensitive.

Mr Qiao and his supporters believe that the credibility of the ruling Communist party would be enhanced by a painstaking re-assessment and that China's reputation would benefit. However, an impediment remains the continuing presence in the leadership of Mr Li Peng, the premier, who issued the instructions for the army to act on Mr Deng's orders.

China's rulers will be anxious to avoid argument over such a contentious issue as the post-Deng leadership seeks to consolidate around President Jiang Zemin. However, the leadership may eventually be propelled towards a review.

China's official references to Tiananmen have been muted recently and Mr Jiang skated over the massacre in his eulogy to Deng late last month. His remarks did not amount to full endorsement of the action taken, but were rather a re-statement of the official line that the crackdown was aimed at preserving stability.

Western officials say that while the removal of the "counter-revolutionary" statute from the criminal code appears to be a step towards answering criticism that such laws abuse human rights, China remains armed with rules to deal with dissent.

Government action 'key to Tiger success'

By Peter Montagnon, Asia Editor

Asia's four Tiger economies owe their success to the entrepreneurial nature of their governments rather than classic free market economics, according to a study published by Britain's Overseas Development Institute*.

The study, by Mr Tony Yu of the University of New South Wales, describes as inadequate the orthodox explanation that deregulation and free market economics created high growth in Hong Kong, Singapore, Taiwan and South Korea. Economists should play much closer attention to the role of governments, he says.

The notion that a close, complex and productive relationship between government and business has played an important part in Asia's economic miracle is a theme that has begun to recur as the region takes a more self-confident look at its own development. It is expected to be explored by the Asian Development Institute think-tank being set up later this year in Tokyo by the Asian Development Bank with the aim of drawing up a regional perspective. Some economists argue that the eventual outcome could be a more Asian approach to conditionality in development aid.

Mr Yu argues that the Tiger governments succeeded because, in their different ways, they took the role of result-oriented entrepreneurs, making the framework for government intervention dynamic. While there is no disguising the role of government in South Korea, Taiwan and Singapore, even Hong Kong – often thought of as the last bastion of *laissez-faire* – owes its success to government entrepreneurialism, he says. But the territory's approach was facilitative rather than directive.

Hong Kong's entrepreneurial approach shows particularly in its subsidised housing policy, which has helped maintain social stability, reduce the cost of labour and provide a safety net for small entrepreneurs.

It has used revenue from land sales income to maintain a relatively extensive welfare system while maintaining low corporate and personal taxation, and has taken the lead in planning infrastructure. While it has not sought to pick winners in manufacturing, it set up the Hong Kong Productivity Centre and Trade Development Council to help business concentrate on the right activities.

This approach is by no means *laissez-faire*, Mr Yu says. "The government would restrain its visible hand if it found the private sector could do better, as illustrated in its manufacturing activities, but would interfere without reserve if it found it necessary, as in the case of housing provision. The Hong Kong government is therefore essentially interventive."

In the other three Tigers, the government approach is more directive but still entrepreneurial. "They tend not to follow ready-made textbook prescriptions. They have been pragmatic and flexible, not only in the sense that no excessive trust has been placed in liberal market policies, but also in the sense that the dangers associated with state intervention have been recognised." They have also shown an entrepreneurial streak in quickly changing policies that have been proved wrong, he says.

Singapore, South Korea and Taiwan routinely targeted assistance on specific industries and even specific companies, but an emphasis on export performance helped push industry towards international best practice.

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Weary Zaire awaiting its fate

Michela Wrong on a radical shift in public attitudes to the rebels' cause

In Kinshasa, the Zairean capital, the political elite is abuzz with talk of a secret Pentagon paper. Those who claim to have read the paper, much discussed but never produced, says it envisages splitting the nation from north to south at the level of the town of Kananga.

The east side, including the diamond-producing province of Kasai, copper-producing Shaba and gold-rich Kivu, would go to the rebels who have been advancing across the country since October. The west side, holding President Mobutu Sese Seko's Equateur province and the underdeveloped rural areas, would remain in Kinshasa's control.

America's aim, the elite claim, is to force Kinshasa to accept the east's secession and then flood the region with 4m Rwandan Hutus, overspill from one of Africa's most populous countries.

Zaire's ruling class, which for decades regarded Washington as its closest ally, is now convinced a hostile US is committed to the nation's fragmentation.

New friendships with Uganda and Rwanda, providing the rebel movement with its logistical backbone, have – Zairean officials believe – encouraged the US to forget its cold war alliances and abandon the cancer-stricken Mr Mobutu, once its African crusader against communism.

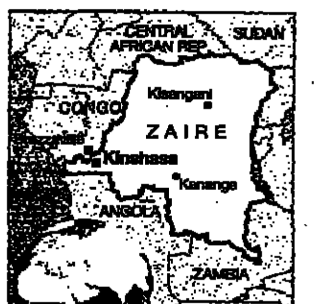
The conviction that the world's only remaining superpower has thrown in its hand with Mr Laurent Kabila's Alliance of Democratic Forces in part accounts for the extraordinary resignation with which the country now awaits its collapse.

But behind the passive acceptance of the approaching disintegration lies a profound weariness with the status quo. Three decades of mismanagement and corruption have come home to roost.

"There is a deep desire for change," says a diamond dealer. "People listen to the radio and pass around letters from relatives in occupied areas. They hear that life there is good, Kabila's men are more disciplined than the Zairean army, and new administrative structures are being established."

Rebel victories in the east have coincided with a radical shift in public attitudes towards the fighters' cause. Last October, when the revolt by the Banyamulenge – Zairean Tutsis declared persona non grata by the government – first burst into life in South Kivu province, Mr Kabila was generally regarded as a puppet of the neighbouring Rwandan government.

His uprising was viewed as a foreign invasion and for a short time normally cyni-



cal Zaireans were swept along on a wave of patriotic fervour. When Mr Mobutu returned from months of treatment in Switzerland for prostate cancer, he was welcomed at the airport by thousands of cheering subjects.

The general expectation was the president would appoint Mr Etienne Tshisekedi, the popular veteran opposition leader, as prime minister. Mr Tshisekedi would then make a deal with the rebels and come up with a miracle cure to the country's ills.

When it became clear Mr Mobutu was planning only to reshuffle the government, appoint a new army chief of staff and rap a few too-ambitious generals over the knuckles, the disappointment was immense. The president was later booed.

Since then Mr Kabila has been adopted as the people's hero.

In the east, advancing rebels often capture towns without a shot being fired. Villagers hide in the bush to avoid the desperate former Rwandan soldiers who are retreating westwards, leading a cowed population of exhausted refugees, then emerge to welcome the guerrillas as liberators.

"With the exception of the killing done between Rwandan Hutus and Tutsis, this has hardly been a war at all," says an aid worker.

The fall of Kisangani, a psychological turning point, is now universally expected and civilians yesterday began fleeing the town. Many of the foreign mercenaries stationed there have left, despairing of ever bolstering the resolve of the drunk and anarchic troops.

In Kinshasa, diplomats say central government is barely functioning. The recent acceptance by both the government and the presidency of a UN peace plan, previously rejected because it failed to condemn Zaire's aggressors, is a sign of the growing desperation over the rebels' refusal to accept a ceasefire.

Politicians and businesses in Kinshasa have been sending emissaries to the rebels to establish links with the possible future power. Even the army, locals say, is wavering over a March 13 deadline Mr Kabila has given them to lay down their arms and support his cause.

Many analysts believe the fall of Kisangani will trigger a collapse in military morale and looting in Zaire's cities. In that vacuum, there could emerge a military leader ready to make a deal with the rebels and organise the elections Zaire's foreign allies still cling to as a way out of the current impasse.

Some Zaireans believe the new chief of staff, General Mahele Liongo, who put down army rioting in 1993, could be such a man.

"It would be better if that happened before the president dies," says a former top official, who gives Mr Mobutu weeks rather than months to live. "Because once he goes, there will be total anarchy."

Anger as Nynex rings the changes

By Richard Waters in New York

Manhattan is running out of telephone numbers. To judge by the soul-searching this has provoked among some residents, you would think the very identity of New York City's most famous borough had been thrown into question.

At stake is the 212 area code, one of the best known in the country. Like Washington DC's 202 or Boston's 617, it is a mark of belonging for city dwellers, proof that they are closer to the heart of the action than those poor souls banished to the outer boroughs or suburban New Jersey.

Last week the local telephone company serving the city warned that some people might soon be stripped of their 212. There were simply too few new numbers to go around, Nynex said. A new area code would be needed to cope with demand for new lines by the end of next year.

This is the latest indication of the speed at which cellular telephones and other communications devices are eating up US telephone numbers. Last year some Chicago and Houston residents were deprived of their traditional 312 and 713 numbers, to considerable anguish.

Not so long ago the US was thought to have enough telephone numbers to last to the end of the century, according to Bellcore, which runs the North American Numbering Plan, the area code system set up after the second world war.

The spread of devices such as fax machines and the Internet has been so fast, though, that new codes started emerging two years ago. By 2005 the number of codes in use will have doubled to more than 300.

Prestige is often at stake – as the bubbling discontent in Manhattan shows.

"It's a sentimental thing," said Mr Nick Lobocarro, a securities analyst who lives in Greenwich Village.

But there are more practical reasons for disliking change.

Small businesses face considerable inconvenience and cost each time the area code is changed. And the value of residential properties might well be affected, said Mr Ken Krasnow, a director at New York real estate company Cushman & Wakefield.

It is still unclear how the axe will fall in Manhattan. Nynex sees one possibility as a carve-up of the island, either along an east-west axis like 42nd Street, or a north-south one like 5th Avenue.

Another option – favoured by the company – is to let everyone keep their 212 number, and to start handing out the new area code when the supply runs out.

China 'tried to influence US elections'

By Gerard Baker in Washington

The US Federal Bureau of Investigation has conclusive evidence that the Chinese government channelled money into the US last year in an attempt to influence the outcome of elections, according to a newspaper report published yesterday.

The Washington Post said the FBI warned six members of Congress last year that they had been targeted by China to receive campaign contributions funnelled illegally through foreign corporations in the US.

Evidence of the warnings, apparently confirmed yesterday by at least one of those targeted, is likely to damage US-Chinese relations.

It will also heighten fears over US national security and spark new questions about the precise role of wealthy Asian-Americans with Chinese connections in raising large sums of money for President Bill Clinton's re-election campaign last year.

Two weeks ago the Washington Post reported that the Chinese government had considered trying to buy influence in the US government through large contributions, but yesterday's article claimed to provide the first concrete evidence that the Chinese had actually sent money for that purpose.

Mr Clinton has come under fire in the last few weeks over allegations that his campaign for re-election was financed in part by large donations from some questionable sources.

The Democratic party has already been forced to return millions of dollars raised by several wealthy Asian-Americans with Chinese connections.

Although the FBI had no comment on yesterday's report, a spokesman for Senator Dianne Feinstein, a Democrat from California, was reported to have confirmed she was one of those who received an FBI warning. The other five members targeted were not identified.

Former White House officials denied knowledge of the warnings. Mr Leon Panetta, who was White House Chief of Staff at the time the warnings were issued, said: "I certainly wasn't advised of that. The president was not advised of that and obviously this is something the Justice Department is investigating. Congress ought to investigate, because clearly this kind of thing should not have happened."

It was not clear whether any of the money raised by the Chinese actually made its way into the finances of congressional or presidential campaigns.

Foreign government donations to political campaigns are illegal under US election law. The Chinese government has denied any attempt to influence elections.

Netanyahu in historic trip to Moscow

By John Thornhill in Moscow and Judy Dempsey in Jerusalem

Mr Benjamin Netanyahu today becomes the first Israeli prime minister to visit Russia when he arrives in Moscow to promote closer ties between the two former cold war enemies and discuss a gas supply contract.

Israel is negotiating to buy Russian gas to broaden its energy base and lessen its dependence on vulnerable oil and coal supplies. An Arabic newspaper reported that Israel was interested in signing a contract worth as much as $3bn.

However, Israeli officials said they did not expect the deal to be signed this week. "We may consider some memorandum of understanding but we are keeping all our options open," a spokesman for Israel's infrastructure ministry said.

Only 4 per cent of Israel's electricity is generated by gas but officials said there were plans to increase that share to 10-15 per cent by 2015.

Israel has been holding talks with Qatar, Turkmenistan and Egypt, which would be the preferred supplier because of its proximity. "But we do not want trade and politics to be mixed," an Israeli official said.

He insisted Israel had not closed the option of buying gas from Qatar, whose 90-day exclusive negotiating right recently expired.

Mrs Aliza Shenhar, Israeli ambassador to Moscow, said Mr Netanyahu's visit would help promote trade between the two countries; trade has grown from nothing five years ago to $500m last year. He would also encourage telecoms and medical equipment joint ventures.

Arab leaders question US role after veto

By David Gardner in Damascus

Palestinian leaders close to Mr Yassir Arafat, president of the Palestinian Authority, yesterday said it was time for active resistance to Israeli settlement of Arab land.

Palestinian anger came as Arab leaders across the Middle East condemned the US for vetoing a United Nations Security Council resolution on Friday which called on Israel to reconsider plans to build a new Jewish settlement in occupied Arab east Jerusalem.

"From now on, resisting settlements will not be through words, condemnation, or complaints to the UN Security Council," Mr Ahmed Abdul-Rahman, general secretary of the Palestinian self-rule authority's cabinet, told a rally in Gaza. Introduced as speaking on Mr Arafat's behalf, he said: "The danger surrounding us is forcing us to decide whether to be free and masters of our land or slaves of the Israelis."

The new settlement in the south-east of the holy city would block off the last remaining corridor through which Arab Jerusalem, already nearly enclosed by a wall of Jewish settlements, could be linked to the West Bank.

President Hosni Mubarak of Egypt, in Washington for talks today with President Bill Clinton, told CNN that the US veto was "unfortunate", as the settlement issue "may explode the whole peace process".

In Damascus, Mr Farouq al-Shara'a, the Syrian foreign minister, condemned the US veto as a blow to the credibility of the Middle East peace process and an encouragement to Israel to flout international law.

Other Syrian officials called into question Washington's role as "honest broker" in its attempts to restart peace talks between Israel and Syria, broken off a year ago.

Syria has been trying to persuade its regional allies that this is the moment for a new Arab summit, probably in Damascus, to freeze any further diplomatic and commercial ties with Israel. June's Arab summit in Cairo threatened a reconsideration of all links with Israel if Mr Benjamin Netanyahu, Israeli premier, continued to colonise conquered Arab land and refused to negotiate its return in exchange for peace.

Western and Arab diplomats say Damascus is also arguing that Iraq – under UN sanctions and excluded from Arab ranks – should gradually be brought back into the fold to strengthen the Arab front.

Mr Shara'a remarks came as he met Mr Ali Akbar Velayati, the Iranian foreign minister, who described the US veto as "a motive for [Arab and Islamic countries] to rally their forces to liberate Jerusalem".

Yassir Arafat talks to journalists yesterday after a meeting with Jordan's King Hussein *Associated Press*

Mexico acts on cash laundering

By Leslie Crawford in Cancún, Mexico

Mexico will introduce regulations this week to curb the laundering of drug profits through its banks and brokerage houses, according to finance ministry officials.

The US State Department, in its annual international narcotics strategy report published last week, named Mexico as "the money laundering haven of choice for the initial placement of US currency in the world's financial system". It said the battle against money laundering was weakened by "endemic corruption" in Mexico.

Despite these concerns, the US certified Mexico as an ally in good standing in the international war against drug trafficking.

Mexican officials denied the new regulations were being issued in response to the report's criticisms. They said the rules were the product of two years of talks with the domestic financial community, and were based on practices already adopted by the OECD, of which Mexico is a member.

From next year, Mexican banks, brokerage houses and a handful of large foreign exchange houses will be obliged to report all cash transactions above $10,000. Financial institutions will also be required to inform bank regulators of "suspicious transactions", and to establish procedures to detect money laundering.

The new regulations make financial institutions criminally liable for aiding and abetting money launderers.

Banking officials, however, admitted the new regulations would not affect the thousands of small foreign exchange bureaux, which have mushroomed since currency trading was liberalised in 1989.

"It would be physically impossible to police all of Mexico's currency dealers," Mr Pedro Zamora, chief legal adviser to the National Banking and Securities Commission, said.

Infrastructure an impediment

By Roula Khalaf in London

Poor infrastructure is a key constraint on investing in the Middle East and North Africa, although the sector's monumental needs offer one of the best opportunities for foreign investment in the region.

This was the main conclusion of a London conference on investment opportunities in countries on the Mediterranean's southern and eastern rim, which ended on Friday.

"The effective availability of infrastructure on a per capita basis has been on a declining trend in the region for several decades now," said Mr Giacomo Luciani, an executive at Italy's Eni. "The rapid spread of cellular phones in those countries where they are available should not blind us to the shortcomings of telecommunications, when access beyond the capital and other major urban centres is considered."

The most serious insufficiencies in the region are in water, energy and transportation. The region's total infrastructure investment needs over the next 10 years were estimated, conservatively, by the conference at $65bn-$165bn. Other estimates put energy investment needs alone at up to $250bn.

Mr Radhi Meddeb, chairman of Comete Engineering in Tunisia, said the public sector would be able to fund less than half of the total needed. According to Mr Meddeb, another 10 per cent would be funded by international financial institutions, leaving 15-25 per cent – or up to $50bn – to the private sector.

Governments in the region have been turning to the private sector in build, operate, own, and transfer schemes. Some transactions involving foreign partners are in train, including a 300MW-500MW power plant in Tunisia and another 8,000MW plant in Egypt.

Mr Luciani said the projects under way proved foreign investors' interest but he urged nations to set up "a clear institutional framework" and ensure that investors were invited to participate in a competitive bidding process.

Prescription drug sales advance 7%

By Daniel Green

World pharmacy drug purchases January-December 1996 ($m)

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Belgium	Neths
Cardiovascular	[illegible]	[illegible]	3,741	3,057	1,906	1,124	1,001	717	887	334
Alimentary/Metabolism	9,810	4,783	2,730	2,315	1,463	1,348	838	579	292	436
Central Nervous System	[illegible]	[illegible]	1,912	[illegible]	969	1,052	682	630	334	250
Anti-infectives	5,952	2,670	1,248	1,828	1,165	443	602	262	243	121
Respiratory	[illegible]	[illegible]	[illegible]	[illegible]	678	1,008	542	382	212	289
Blood Agents	3,135	2,230	778	342	507	188	300	279	101	125
Genito-urinary	[illegible]	[illegible]	[illegible]	[illegible]	431	590	188	210	94	115
Others	11,211	6,445	3,430	2,326	1,847	1,279	967	698	333	322
Total	60,210	23,347	16,529	15,075	8,966	6,822	5,119	3,737	1,996	1,991
% Change	10	[illegible]	3	2	11	10	9	4	6	1

Source: IMS International · Non-hospital market only · Increase excluding currencies

Sales of prescription drugs in the world's top 10 markets rose 7 per cent to $143.8bn last year, according to data published today.

The increase conceals wide variations between countries and medical areas, according to IMS International, the specialist pharmaceuticals industry market researchers. Sales advanced 8 per cent in 1995 and 1994.

The star performers last year were anti-depressants such as Eli Lilly's Prozac and cholesterol-lowering agents such as Zocor and Mevacor from US company Merck.

Anti-depressants are included in nervous system drugs, which recorded a 14 per cent year-on-year increase in sales to $20.3bn.

Sales of blood agents, which include cholesterol-lowering drugs, rose 16 per cent to $7.9bn.

From this year, IMS will be switching cholesterol-lowering drugs to the heart disease category. Heart disease drugs remain the biggest single category, but sales have grown slowly in recent years because of tough competition between drugs aimed at lowering blood pressure.

Heart drug sales last year rose 3 per cent to $25.5bn, keeping them just ahead of digestive system drugs, where sales climbed 9 per cent to $24.6bn. Digestive system drugs include the world's two biggest sellers, Zantac, made by Glaxo Wellcome of the UK, and Losec/Prilosec from Swedish company Astra.

Anti-infectives, which include fast-growing Aids drugs but also antibiotics, where buyers are more price-conscious, saw sales rise 6 per cent to $14.6bn.

The world's biggest market, the US, was also one of the fastest growing. Drug sales climbed 10 per cent to $60.2bn. Only Italy grew faster, rising 11 per cent to $9bn, at constant exchange rates. The Italian expansion followed two years of slow or negative growth due to government measures to control the drugs budget.

The UK grew at the same rate as the US, to £6.8bn ($11.1bn), but its market is smaller than those in Italy and France, which have similar populations. French drugs sales rose 2 per cent to $15.1bn. Germany remained Europe's biggest market, with sales up 5 per cent to $16.5bn.

The world's second biggest market, Japan, recorded relatively slow growth of 3 per cent to $23.3bn. Tokyo introduced mandatory price cuts in April – and will do so again this year – and winter's influenza season was mild, hitting sales of antibiotics and respiratory drugs.

UK NEWS: BUSINESS AND EUROPE

What do medium-sized companies think about Europe? An FT survey finds support for a single currency, and even the social chapter, but there are significant reservations

Broad support but doubts on the timetable

If there is one executive who sums up the general view on European issues within Britain's small to medium-sized businesses it is probably Mr David Ayres, chairman of Advance Tapes, a Leicester-based manufacturer of adhesive products.

Mr Ayres, whose company has annual sales of £22m, 50 per cent of which is in exports to the rest of Europe, broadly supports economic and monetary union. He reckons it would make doing business across the continent easier: "I don't see how we can have a common market without a common currency."

But Mr Ayres doubts whether the individual economies of European Union members are sufficiently aligned to allow the project to proceed in 1999 as planned. He thinks it likely that Britain will wait before joining, probably later than 2002.

On the EU's social chapter, Mr Ayres senses the logic to Europeans having a common set of standards related to employment. The chapter is a broad framework for social and employment legislation which at present contains just two clauses – related to parental leave and works councils – but which many UK business people fear could be used as a vehicle to push through costly new regulations covering work processes. Mr Ayres believes Britain should not sign the chapter because "it is too all encompassing and I am against adding huge social costs as the French and Germans do".

Mr Ayres says a minimum wage, which could possibly be introduced as part of the social chapter, probably would not make much difference to his company, which employs 300 people, who are on an average annual wage of about £11,500. This is well above the figures that are being discussed for a possible UK minimum wage – according to many labour-market theorists, a "realistic" level might be £3.50 an hour, which would equate to £6,900 for a 38-hour week.

As for the overall impact on Britain of a minimum wage, Mr Ayres, like many industrialists, says everything would depend on the level it was set at. He would not object to a "sensible figure", which he puts at £6,000-£8,500 a year, because it would act as "a basic safety net".

Looking further ahead, Mr Ayres says Britain should move closer to the rest of Europe. "Long-term development must come from a more cohesive Europe. I am not in favour of concentrating a lot of power at Westminster."

From a Financial Times survey of business opinion across Britain on European issues, Mr Ayres has emerged as close to "Mr Average" in terms of his views on these questions.

In the study, 81 executives in a range of service and manufacturing industries, and with annual sales mainly in the range of £5m to £50m, mostly employing 30 to 500 people, have given detailed responses to questions on the UK's future in Europe. Although most supported the principle of a single currency, many, like Mr Ayres, are worried by the plans for its implementation, with 44 per cent urging Britain to delay joining and a further one fifth saying the UK should never join.

The questions cover three main areas:

Single currency. Mr Hugh Morgan Williams, chairman of Canford, a Gateshead-based manufacturer and distributor of audio equipment, says abandoning sterling for the euro would help his company's sales in the rest of Europe – which account for about 20 per cent of Canford's £13.5m annual turnover.

The pound's movement against other European currencies makes it difficult to guarantee prices to continental customers, says Mr Morgan Williams.

"If we exclude ourselves from the first wave [of a single currency] we will get a bad deal. The crucial thing about monetary union is the rate at which you join. Participate in the decision, rather than have it rammed down your throat."

Mr Andrew Brode, managing director and owner of RWS, a Buckinghamshire-based company which employs 220 people in translation services and exports 70 per cent of its £12m annual sales, is similarly positive. Britain should enter Emu at the first opportunity, since within the EU "we've done badly out of being late all the time".

Many business people view the euro as a logical further strengthening of institutional links across Europe.

Mr Bob Hodgson, managing director of Pillans & Wilson Greenaway, an Edinburgh security printing company, says: "Our work is associated with financial markets and anything that cements the UK's position as the financial capital of Europe is good."

Mr Stephen Curtis, managing director of Jordans, a Bristol-based business information company, and another single currency supporter, says: "Many of our clients operate internationally, as does Jordans, so we would welcome any move that made that easier."

On the implications if Britain were to be left out of Emu, Mr Nick Pickles, finance director of NCMT, a west London machine tool distributor, fears Britain could be "sidelined". Mr Graham Wright, managing partner of Dickinson Dees, a Newcastle solicitors, says multinationals would be less keen to invest.

More sceptical is Sir Nigel Mobbs, chairman of Slough Estates, the property company. He frets about the "risk of a fudged solution from Germany and France that could be bad for the overall business climate".

Mr Peter Tims, managing director of Flexible Technology, a maker of printed circuit boards in Rothesay, on the Isle of Bute, says the UK should join only when the "economies of participating states have been sorted out – that could be well into the next century".

Also urging a delay is Mr Neville Hall, managing director of HJ Sock Group, a sock maker in Hinckley, Leicestershire. He wants Britain to join a single currency in 2002 or later, believing the delay will not prove harmful providing the pound can be kept reasonably stable.

But there is a strong body of opinion saying Britain should stay out permanently. Mr Stephen Littlestone, managing director of Littlestone and Goodwin, a Northamptonshire handbag maker and distributor, says bringing in the euro would add to EU "interference", while Mr Melvyn Booley, joint managing director of Ace Cleaning, a Leicester office cleaning company, says: "There aren't any benefits. We'd lose control [of economic policy]."

Social and employment issues. On the social chapter, opinion is generally negative. More than two-thirds of the people in the survey reckon Britain should not sign, with 44 per cent saying it would have a negative effect on their own companies. Just one fifth of companies think the UK should join the social chapter.

Mr Nick Kendal, managing director of Ekco, a Chesham-based packaging maker, says: "It would clearly be bad for our business [bringing] higher costs, reduced flexibility and more time consuming bureaucracy."

Mr Roger Saul, chief executive of Somerset based Mulberry, a clothes and accessories supplier, fears a social chapter could usher in "restrictive practices and a potential return to the days of union power used destructively".

Perhaps surprisingly, antagonism to the broad principle of a minimum wage is more muted. While 54 per cent of the people interviewed voice general disapproval, a sizeable minority of 37 per cent says a minimum wage would be good for Britain – mainly on the grounds of guaranteeing a "fair" income for individuals and curbing exploitation.

Only 26 per cent believe a minimum wage would be bad for their business – with nearly three-quarters either saying that at the levels being discussed it would have no effect, or not giving an opinion.

Mr Ian Tritton, managing director of Capitol Catering, a contract caterer in Reading, thinks a minimum wage is "an acceptable institution for a relatively rich country, while Mr Geoff Forster, managing director of Scientia, a Cambridge software company, says it helps the lower paid without placing too great a burden on business.

Closer links with the rest of Europe. Mr Matt Cooper, chief executive of Crabtree, a Gateshead machinery maker, denies he is "anti-European" but says he fears handing over responsibility on interest rates to unelected officials at a future European central bank, with the UK parliament reduced to a "parish council".

Mr Kenneth Edwards, chairman of Ariel, a Leicester-based maker of industrial fasteners, is also not keen on stronger links, claiming the Germans are "arrogant", while Mr Michael Davies, chairman of Woolliscroft Tiles, of Stoke on Trent, says: "I like the theory of an integrated Europe, but it's full of cock-eyed ideas with 15 or 16 horses pulling in different directions."

For all this, many believe it is essential for Britain to keep up the strongest links on trade and that if the single currency can be sensibly managed then that is the way forward. Mr Tom Dean, managing director of Ercol, a furniture maker in High Wycombe, says: "We're reliant on the rest of Europe in so many ways. I think a single currency is inevitable."

Mr Hermann Hauser, an Austrian who was a founder of Acorn, the Cambridge-based computer company, and has started about 20 new high-tech businesses in Cambridge, says he used to worry about the Austrian schilling being no longer an important international currency – but he does not any more. "People in Britain should not be so emotionally attached to the pound. The UK should join up straightaway for the single currency – there are things about Europe that are not right, but Britain should change them from the inside."

The message from the survey to politicians mulling over the future of Britain within Europe is that the UK business world is more positive towards closer links than it is negative.

There is general support of the ideas behind the single currency. But seen from the perspective of boardrooms in the small to medium-sized businesses that are the backbone to the UK industrial economy, the practicalities of getting individual European economies sufficiently into line for Emu to take place on time appear huge. From this perspective, it would be better to take a deep breath, and postpone the project until the economic background looks more propitious.

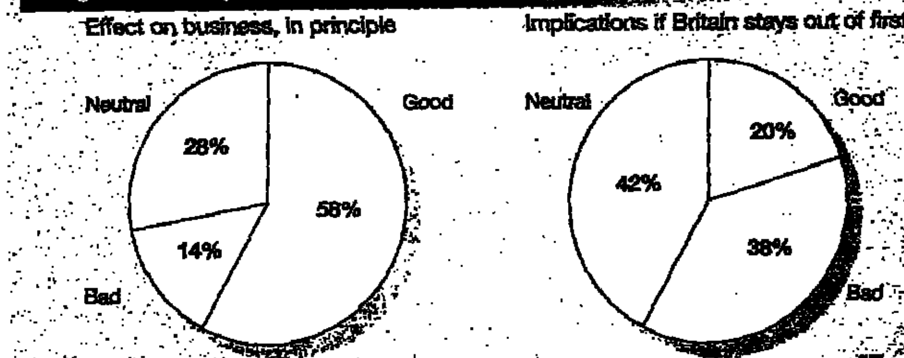
Lex, Page 26

Report written by
Peter Marsh
Michael Peel
Richard Wolffe
Roland Adburgham
Chris Tighe
James Buxton

Eighty one executives from small to medium-sized companies were interviewed. The companies, in a range of manufacturing and service industries, were selected to provide a spectrum of views from the business heartlands of Britain.

View from the industrial heartlands

Single currency



%	Yes	No	Neutral
UK should delay joining	64	29	7
Join at some stage	73	20	7
UK will wait until after 1999	77	16	7
UK will never join	10	83	7

Social/employment issues

%	Yes	No	Neutral
[illegible]	[illegible]	[illegible]	[illegible]
Social chapter	21	70	9
[illegible]	[illegible]	[illegible]	[illegible]

%	Good	Bad	Neutral
[illegible]	[illegible]	[illegible]	[illegible]
Social chapter	3	44	53
[illegible]	[illegible]	[illegible]	[illegible]

Closer links with rest of Europe

%	Stronger	Weaker	Neutral
In favour of closer economic [illegible]	41	[illegible]	[illegible]

Figures are percentages, based on replies to FT questions by 81 executives in small to medium-sized UK businesses.

"Europe ... issue ... to get ..."
Simon ... joint ...

"If Britain does not go into Emu straightaway it will be bad, it will slow us down."
Christopher Smith, managing director of printers Smith Ozzman

THE SOUTH

Gateway to the continent, and closer in spirit

By Michael Peel

South coast companies representing many different types of business are eager for a single currency, as befits those at the gateway to the continent.

"I don't look at my business being in the south of England but in central Europe," says Mr Peter Tyler, managing director of Fine Cut International, an engraving and printing company based in West Sussex. "It is easier to get to Germany than to Leeds from here."

Twenty per cent of the company's sales are in exports and Mr Tyler looks forward to the exchange rate stability a single currency is expected to bring. "I recently lost £60 on a £1,700 transaction because of currency fluctuations."

Mr Roger Greaves, managing director of R.P. Greaves, a car transporting and accident repair business based in Dover, says he hopes the extra costs his business incurs from exchange rate fluctuations will be halted by European monetary union. "We recently had a 9 per cent increase from our paint suppliers in Holland because the pound was strong," he says.

A single currency would cut the cost of moving cars to the continent, he says. "We can buy tolls for the motorway now, but we don't know what the pound is going to do in the meantime."

Enthusiasm for a single currency among company directors in Dover and Brighton does not translate into pessimism about prospects for a Britain outside Emu.

Mr Michael Jukes, chairman of the London Fancy Box Company, a box-maker based in Dover, says trade links with countries outside the European Union are well enough developed to allow the UK to maintain a monetary system independent of the single currency. "I think the implications are close to zero if we do not join because of the UK's pattern of trade," he says.

"Also the principles of the EU concerning the free movement of capital and labour would have to be overturned for us to be affected negatively."

Mr Jukes is typical of many of those surveyed in opposing the social chapter while equivocating over the minimum wage. "The minimum wage is prescriptive and it will push people out of work in certain sectors," he says. "But part of me says there should be a minimum wage and it should be higher than £2.50."

Ms Judy Llewellyn-Burke, director of Walter Llewellyn, a building company based in Eastbourne, sees the minimum wage as a useful tool to force companies paying very low wages to operate on the same level as their competitors. "It would help to stifle the black economy, although it would increase our building costs as we would no longer be able to employ casual labour," she says.

But she finds it difficult to judge the effect monetary union would have on her business. "I haven't enough information. Companies are never sent any details by government," she says.

THE MIDLANDS

Exporters admit long-term benefits of single currency

The manufacturers of middle England pride themselves on their sceptical view towards monetary union in Europe. Among the metal-bashers and component-makers of Birmingham and the Black Country, opinions towards Emu have been formed largely by the fate of their export sales since 1992.

After sterling's abrupt departure from the European Monetary System in September of that year exports among West Midlands manufacturers became the driving force for economic recovery in the region. As a result, many smaller manufacturers have wanted to retain the freedom to use exchange rates and interest rates to win a competitive edge over their continental rivals.

But this year's sharp rise in the value of sterling has thrown a new light on the single currency debate. While most remain highly cautious about joining the proposed first wave in 1999, most manufacturers admit that the long-term benefits of stable exchange rates have become obvious.

Mr Keith Sansom, chairman of BIP, the Black Country-based plastics company, said: "How can organisations survive in the world when your fundamentals change by more than 20 per cent in less than a year, and it is nothing to do with you?

"We have spent a lot of money investing in Germany, knocking out our competitors on the continent, with better attitudes to service and better products. A single currency would, on balance, be good for the very simple reason that it would allow us to plan better than we can now."

Surveys of manufacturers in the region now show about 60 per cent of businesses in favour of the principle of a single currency. But the region's manufacturers are highly doubtful that European politicians can succeed in delivering Emu. About 60 per cent are reported to be opposed to joining the single currency in the first wave in 1999.

Mr David Botterill, chief executive of the Engineering Employers Federation in the West Midlands, said: "My personal view is that there is some merit in not being in the first wave as long as we have a clear desire to play an appropriate part in Europe and move towards a single currency.

"Manufacturers are concerned about the rise in sterling, although I do not think they are too worried about the absolute level. It is the rapidity of change that has caused the problems, particularly for those who developed their exports substantially over the last four years."

Nevertheless, Midlands manufacturers are highly suspicious about the wider impact of a single currency, particularly the extra social costs they may face under the EU social chapter.

Mr Mark Swaby, chairman of Brasway, the hose fittings company based in Wednesbury, said: "We want stability of exchange rates but it has to be at the right level. But what concerns me much more is all the employer costs of the full social chapter that would hit us under monetary union.

"It would just make us less competitive. We now employ a few people in France and there is a noticeable difference in the amount of costs we have to pay as an employer in France – and they are by no means the worst in Europe."

THE NORTH

Fears of European state shape objections to deeper integration

Many industrialists in northern England see negligible benefits in a single currency. "I don't think it's essential for us," says Mr Malcolm Greenhalgh, managing director of Shaw Valves, a Huddersfield-based manufacturer of valves for the chemical industry.

Shaw has annual sales of £2.5m, 55 per cent of which is exported, and has suffered from the strong pound over the past year. But Mr Greenhalgh does not support monetary union because a large proportion of his exports go to countries outside Europe.

He sees Britain as sufficiently robust economically compared with the rest of Europe to operate outside a single currency. "There might be a situation where this country can operate in other markets," he says. "If we moved into Europe politically we would be joining in to help other people out of the mire."

'I have great sympathy for the minimum wage and I understand the need for it in some areas'
David Sutcliffe, managing director Benson Turner

Business people surveyed in Yorkshire and Merseyside were generally sceptical towards further European integration.

"We don't need a single currency in manufacturing business in the UK," said Mr Simon Broadbent joint managing director of Broadbent, a manufacturer of centrifuges and industrial machines also based in Huddersfield.

"Europe is a huge fudge issue and it's not going to get any better."

Others were opposed for a combination of nationalistic reasons and worries about the costs of closer integration. Mr David Bennett, director of Bennett Safetywear, a Liverpool-based maker of protective clothing, expressed this most succinctly when he said: "We don't want to end up paying for all of Germany's old age pensioners."

Many service companies thought national governments would become impotent after monetary union. Some were opposed because it meant giving up control of monetary policy to a European central bank.

"We will end up with successful areas in Europe and areas of huge poverty," said Mr Michael Burns, managing director of BWD Rensburg, a Leeds-based stockbroker.

Others thought adoption of a common currency would lead inevitably to a single European state. "I don't think we envisaged the major questions we are now being asked when we joined the European Community," said Mr Nicholas Wainwright, managing director of Boodle and Dunthorne, a Liverpool-based manufacturer and retailer of jewellery. "We are a very independent people and don't want to be lumped in."

Although most companies opposed the social chapter, they were sharply divided on the subject of the minimum wage. "It would ruin the business," said Mr Gordon Bates, managing director of Bates and Co, a wool and yarn spinners based in Huddersfield.

"Three pounds wouldn't affect anyone. Four pounds could affect a third of my staff."

But many of those interviewed saw a danger of exploitation in the absence of legislation. "I have great sympathy for the minimum wage and I understand the need for it in some areas," said Mr David Sutcliffe, managing director of Benson Turner, a spinning and dyeing business based in Bradford.

Most of those in favour deemed a level of about £3 an hour to be sufficient to tackle unscrupulous employers.

The odd Euro-enthusiast did make himself heard. Mr Tony Robinson, managing director of Flender Power Transmission, a Leeds-based, German-owned supplier to the UK of gearboxes and couplings, thought Britain should sign up to Emu at the earliest opportunity. "If we don't join we will be distancing ourselves from one of the main foundations of the EU," he said.

"Integration is most appropriate in areas where we should observe mutual standards."

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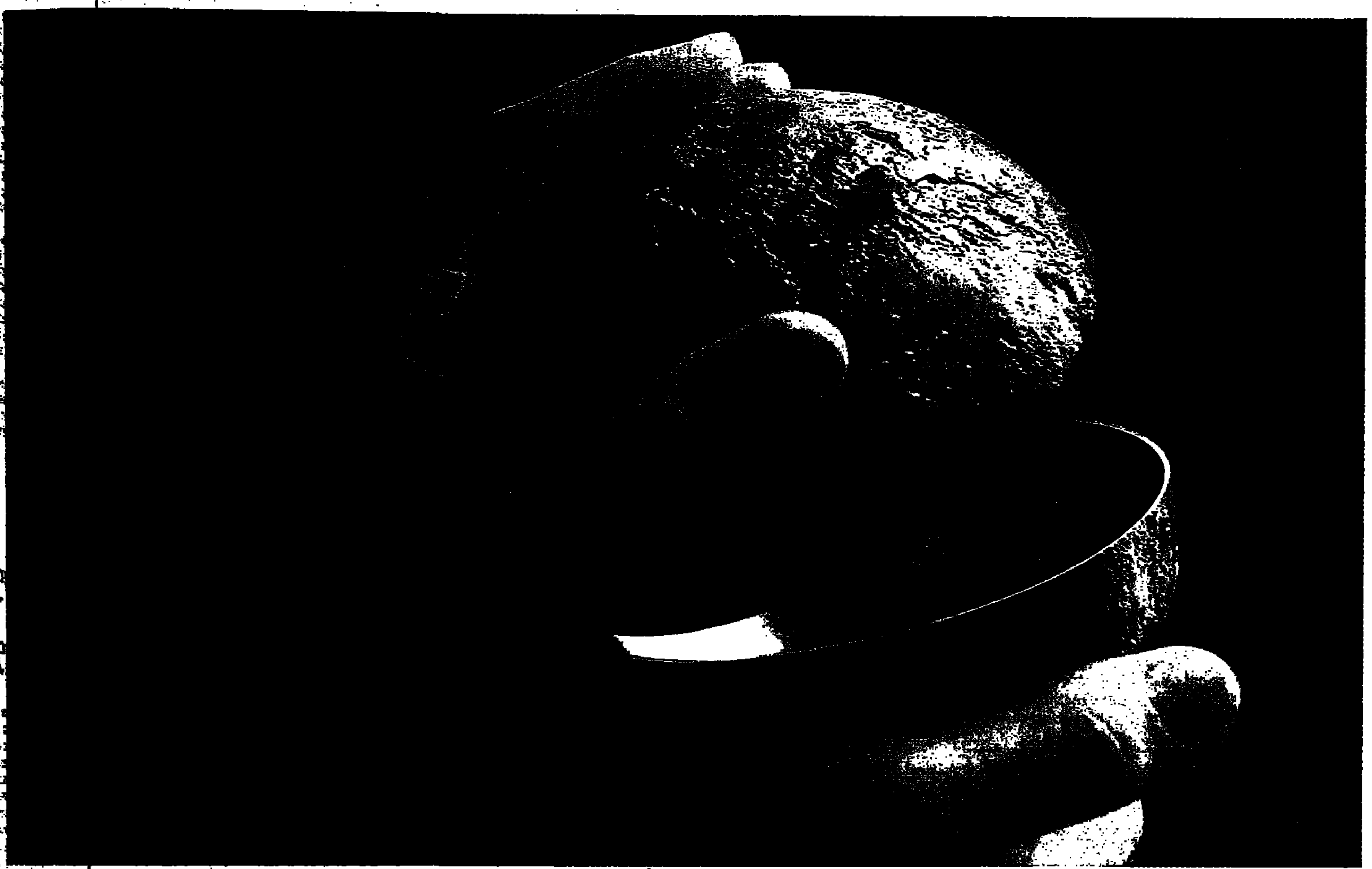

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Opposition party on course to clash with ILO over workers' rights

Labour faces row on union law

By Robert Taylor, Employment Editor

A future Labour government could find itself on a collision course with the Geneva-based International Labour Organisation unless it agreed to change UK employment law to protect trade union and worker rights. It is also likely to face an early showdown with the Trades Union Congress because Labour said last night it did not accept the ILO criticisms.

At present, Labour is not committed to reform of legislation passed by the ruling Conservative party since 1979 to weaken trade union power, although it agreed to restore union freedoms lost in 1984 by staff at GCHQ – the government intelligence gathering centre.

A report by the ILO committee of experts – the inner group responsible for dealing with complaints about infringements of labour standards – for this June's ILO conference is dismissive of the UK government's position over GCHQ.

While welcoming the move to allow staff to establish an association, it regretted the staff federation formed had not been free to organise without state interference.

But the ILO committee has also drafted criticisms of existing UK union laws that Labour is not specifically committed to repeal.

Under a 1992 law, trade unions cannot discipline members refusing to take part in lawful industrial action or who try to persuade members to refuse participation.

But the committee says this breaches an ILO convention that trade unions should have the right (without the threat of serious financial penalties) to decide whether or not to discipline members who refuse to comply with "democratic decisions to take lawful industrial action or who seek to persuade fellow members to participate in such action".

The committee said the UK was breaching an ILO convention preventing workers taking industrial action in sympathy with others in dispute under a 1981 law. "Workers should be able to take industrial action in relation to matters which affect them even though, in certain cases, the direct employer may not be party to the dispute," said the ILO.

And it criticised the UK for legislation enabling employers to discipline striking workers. "The committee has indicated this raised a serious issue in the case of dismissal if workers could only obtain damages and not their reinstatement."

Manager attacks Barings ruling

By John Gapper, Banking Editor

Mr Ian Hopkins, the former head of treasury and risk at Barings, the merchant bank that collapsed two years ago from derivatives trading losses of £830m, yesterday strongly criticised his treatment by regulators.

He said that the Securities and Futures Authority had acted "morally indefensibly".

The SFA is expected to announce this week that he has been banned from working as a manager in the City for three years as not "fit and proper" to be the director of a securities firm.

Mr Hopkins said he had been given an indication that he could avoid the judgment by agreeing to a lesser penalty.

"It was suggested that if I agree that I had acted without due skill, care and diligence, I could avoid being declared not fit and proper. That is not something that should be bargained about," he said.

"It seemed to be my call whether I was declared fit and proper, which is extraordinary."

He said he would not make a formal appeal against the SFA's judgment, in spite of disagreeing with it.

Mr Hopkins, who refused to attend an SFA tribunal that heard his case last year, argues that he warned senior managers at Barings of weaknesses in the bank's controls before its collapse, but was ignored.

A declaration of being "not fit and proper" is among the most serious sanctions that can be made by the SFA. Other senior managers of Barings have avoided such declarations in judgments on them.

The publication of the ruling against Mr Hopkins will bring to an end SFA proceedings against eight of the nine former Barings managers who faced action after the bank's collapse.

UK NEWS DIGEST

Directors warn against Emu

The UK has "nothing to gain and much to lose" from participation in a European single currency, the Institute of Directors will announce today. The view of the employers' lobby group's comes as a survey showing most UK fund managers expect European monetary union to be postponed from its proposed January 1999 start.

Mr Stephen Davies, the Institute of Directors' economic research executive, said UK base rates were likely to be lower than in countries that adopted the euro provided the UK achieved price stability. He also said the UK could suffer even outside a single currency if Emu started prematurely and went badly wrong. *Richard Adams*

■ EDUCATION

Lib Dems pledge £10bn

Mr Paddy Ashdown, the Liberal Democrat leader, yesterday claimed his party could turn political orthodoxy on its head and succeed at the election by promising higher taxes to fund better public services.

Addressing his party's spring conference in Cardiff, Mr Ashdown set out details for a proposed £10bn ($16.3bn) increase in investment in education over the lifetime of the next parliament, funded by a 1p rise in income tax. "If you don't think giving these children a chance is worth an extra 45p a week, don't vote for us," he said.

Mr Ashdown accused the opposition Labour party of "timidity" and failing to accept that Britain could only be transformed if voters were confronted with unpalatable truths on public spending. *George Parker*

■ WORKING HOURS

Employees fear damage to health

One in three UK employees believe their health has deteriorated as a result of working long hours, and a quarter think the number of days they will take off work due to illness will increase over the next few years, according to a survey published today by Watson Wyatt, the international employee benefit consultant.

The findings are based on a survey of more than 1,200 employers and employees in UK manufacturing, service and retail companies.

"Absenteeism is a timebomb," said Mr John Casell, head of the healthcare consulting practice at Watson Wyatt. "If the pressure on employees' time continues to rise, the cost to the UK of staff sickness can only get worse." *Robert Taylor*

■ INNOVATION

Boot could prove a winner

Damon Hill, the racing driver, might want to give up on his Arrows-Yamaha racing car and try a pair of Formula One boots instead. Hill's car failed to start at the Grand Prix in Melbourne yesterday, while his rival David Coulthard – owner of a pair of boots made using tyres from Formula One cars – finished well ahead of the pack.

The novel boot is the brainchild of Mr Paul Dooner, a 33-year-old entrepreneur who is also about to launch a range of children's footwear manufactured by Clarks, the shoe retailer. Claiming to have been road tested at 200mph, the range will also have soles made from used Formula One Grand Prix tyres. *Peggy Hollinger*

Backing for a bigger beer glass

By Norma Cohen

Beer drinkers are being short-changed with frothy pints containing less than a full measure of their favourite tipple, according to the opposition Labour party.

This week Labour will announce its backing for a law requiring pubs to introduce oversized glasses.

In a bid to win the votes of serious beer drinkers, Labour will pledge its support for glasses able to hold more than a pint, but with a line at the top to show where the froth should stop and the beer begin.

The move comes as the Campaign for Real Ale (Camra), a group which promotes interest in traditional beers, prepares to release a survey by trading standards officers today showing that 80 per cent of Britain's pubs serve short measure pints.

The Brewers and Licensed Retailers Association, the trade group of brewer-owned and independent pub chains, opposes mandatory use of oversized glasses. It says the legal definition of a pint is unclear. Its own standard requires a "full pint" to be 95 per cent liquid.

Tory defection hits poll strategy

By George Parker, Political Correspondent

Mr John Major's plans to announce the general election date this week suffered another setback yesterday, with the defection of the deselected Tory MP Sir George Gardiner to the Referendum Party led by financier Sir James Goldsmith.

The prime minister hoped to launch an extended election campaign this weekend at the Tory Central Council rally in Bath, but the ruling party has been rocked by a series of embarrassments.

Sir George, a long-standing advocate for a referendum on Britain's future in Europe, said he had received up to seven calls of support from Tory MPs since announcing his defection.

Sir George Gardiner: now a Referendum Party MP

His prediction that Tory MPs are about to "go down the pan with an almighty flush" is hardly the most helpful background against which to launch an election campaign.

Tory Central Office said the prospects of Mr Major announcing the start of a six-week campaign this week were "rapidly receding". The prime minister is now expected to postpone announcing a May 1 election for several weeks.

Sir George, a critic of Mr Major, was deselected by party activists from his constituency in January; yesterday he said he would contest the seat for the Referendum Party at the election.

"I find it very difficult to find a Conservative MP who thinks they are going to win the election," he told the BBC's *On the Record* television programme. "John Major might think they are going to win, but he's about the only one. Tory seats are going to go down the pan with an almighty flush when the election comes."

Sir George will continue to sit in the House of Commons as a Referendum Party MP until parliament is dissolved, but has no plans to back the opposition Labour party in crunch votes.

The switch will boost Sir James's party, which has recently suffered almost invisible opinion poll ratings and desertion by some of its own candidates.

Drugs industry warns of decline

By Daniel Green in London

Decrepit university laboratories are undermining the UK pharmaceuticals sector, the drugs industry warns today in an election "manifesto".

The "failure to modernise" is already damaging research collaborations between companies and universities, it says.

The Pharmaceutical Industry Council, which includes representatives of foreign as well as UK drugs companies and distributors, identifies "severe problems arising from the current erosion of the science base in terms of infrastructure and equipment, and the lack of practical skills of many of the new science graduates".

The complaints may receive a sympathetic hearing from politicians in spite of the high profits the industry makes: about 20,000 scientists and technicians are employed by the top 20 drugs companies, and drug exports exceed imports by £2bn. The UK's biotechnology sector is second only to that of the US.

According to the manifesto, the "real decline in [university] funding by government must be reversed".

It also urges government to promote sharing of high-tech equipment between company labs and universities; for children as young as five to be encouraged to take science courses; and for the research councils to make funding "more focused".

In addition, the government should co-ordinate the collection of National Health Service data on the effectiveness of different treatments. Drug company executives are convinced such information would demonstrate that higher drug consumption could cut costs elsewhere in the health service.

Wider prescribing of cholesterol-lowering drugs could, for example, cut the number of heart attacks that require costly intensive care treatment.

THE PROPERTY MARKET

High-level investment

Plans for a 55-storey building in Ho Chi Minh City do not yet signal a revival in foreign interest in Vietnam, says **Jeremy Grant**

When Mr Lars Windhorst, a 19-year-old German entrepreneur unknown in Vietnam, said a year ago that he was going to build a 55-storey office block in central Ho Chi Minh City, no one took him seriously.

Estate agents said his plans for the $140m building, which would be the tallest in Vietnam and one of the highest in south-east Asia, were the height of folly in a market as small as Vietnam.

Mr Windhorst, who built up a successful computer business in Germany and was asked by Chancellor Helmut Kohl to join a business delegation on a trip to Asia last year, says: "From the beginning, this project was publicised too much."

He claims to be looking beyond present market conditions. "I think the real kick for Vietnam will be in the next four to five years. Then it will be strategically very interesting to have such a project," he says.

Windhorst Tower – which has yet to secure financing and government planning approval – will not be open for tenants until after 2000.

In the meantime, developers face a grim short-term outlook. Ho Chi Minh City is suffering from a huge oversupply of office space and downward pressure on rents, as investor confidence in Vietnam has ebbed.

According to Brooke Hillier Parker, the property consultants based in Ho Chi Minh City, total available stock will reach 176,614 sq m by the middle of this year, up from 65,300 sq m in 1996. Much of that stems from five big office developments that are coming on stream.

Office rents have dropped by 15-20 per cent in the past year to between $35 and $40 per sq m. In Hanoi, the capital, prices have fallen to between $40 and $45 in the same period.

"If someone's coming into the market now I'd say: 'don't hurry', because the market's going to be well supplied for the next five years," says Mr Simon Allen, chief representative of Brooke Hillier Parker.

In the early 1990s, when Vietnam opened its doors to foreign capital, Ho Chi Minh City and the industrial belt surrounding it drew the bulk of foreign investment. The city still accounts for about a third of nationwide investment pledges of $24bn.

That prompted the arrival of a wave of developers – mostly from Hong Kong, Taiwan and Japan – aiming to supply a fast-growing city with international-standard office space.

At the time, the strategy seemed sound. No new building had been done since 1975, when North Vietnamese tanks and troops overran what was then Saigon. The nearest thing to commercial premises was the former US embassy, a 1960s structure occupied by the Vietnamese state oil company.

However, the number of new investors arriving to take up office space has been well below expectations. Some larger companies – notably consumer product manufacturers and banks – are cautiously increasing operations, but not at the anticipated rate. "People find it very difficult to predict their space requirements, so making a commitment even six months ahead is tough," says Mr Allen.

He says he has commitments for 5 per cent of Saigon Trade Centre, a 34-storey, 43,000 gross sq m office tower five minutes' walk from the Saigon River. Only one tenant, Chubb of the US, has moved in.

There are added difficulties. Given the lack of freehold title in Vietnam, developers have been unable to finance their projects through debt, relying instead on equity and offshore parent company guarantees. There is, therefore, added urgency to maximise returns, and developers are not yet prepared to risk cutting rents.

As for prospective tenants, they are unwilling to commit themselves in advance, because construction delays mean that developers often fail to meet scheduled completion dates.

Resigned to a difficult period ahead, property analysts hope the market will recover in three to four years. Vietnam plans to open a stock market in the next three years, and the exchange would be located in Ho Chi Minh City, the country's commercial capital. That would bring an influx of foreign financial services companies and possibly other investors in its wake.

The present developments are "the first big splash of property on the market. But the stock market and insurance companies expanding will be a key factor in the next cycle," says Mr Alastair Orr-Ewing of property consultants Chesterton International, which is marketing a 10,000 sq m office tower in the grounds of a recently completed five-star Marriott hotel.

Mr Richard Whybrow, manager of property consultants Jones Lang Wootton's Ho Chi Minh City office, says local companies may be able to afford premier office space in due course.

"Everyone's thinking from a foreign occupier's point of view. There's increasing demand from local companies, although it's difficult to gauge," he says. One local bank, Vietcombank, is an investor in the property being marketed by Jones Lang Wootton.

Some developers see more immediate promise in the retail sector, which has lagged behind commercial property. Consumer spending is rising fast and the city's annual average per capita income is the highest in Vietnam at $1,500.

Mr Allen of Brooke Hillier Parker says, while it shows promise, legal obstacles remain. Foreign retail companies are not yet allowed licences to operate independently.

"We're advising clients to look at leisure in order to anchor the retail side, and with the retail targeted at young Vietnamese."

Asian investors have already started to make inroads. Pei Yeuh, a Taiwanese company, has plans for a $450m retail and entertainment complex, near the city centre, known as Saigon Happiness Square.

Even Mr Windhorst appreciates the value of diversification – the original plans for Windhorst Tower have been changed from office space only to include retail and other uses.

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VENTURE CAPITAL • by Tony Tassell

Risk business lures entrepreneurs

Foreign private equity funds look for high yields from Indian listed and unlisted firms

From Nairobi to New York, the diaspora of Indian entrepreneurs has made a significant mark in international business.

In the country of their descent, a rising number of internationally-backed private equity and venture capital funds are hoping a growing population of domestic entrepreneurs will deliver a similar performance.

Despite widespread concern over the level of the risk and regulatory constraints in investment in unlisted companies in India, more than $1.3bn has already been committed to the country through about 39 private equity funds, according to the Asia Pacific Private Equity Bulletin.

Industry observers say about half of this has been raised in the past year and plans are under way to raise at least another $400m.

Compared to more mature markets, the amount raised by the nascent and low-profile Indian private equity market is modest. It is substantial, however, compared to the total of just over $7bn that has been poured into Indian equities by foreign institutional investors since the subcontinent was opened up to them in late 1992.

The rise of private equity funds in India has come despite deep ambivalence about the risk/return ratio on such investment, even from within the industry.

The "bulls" in the industry say the quality of Indian entreprenuers is equal to anywhere and returns on investment will be more than commensurate with the level of risk. The more sceptical point to the litany of risk factors in India.

The difficulty in assessing these arguments is that no internationally-backed fund has yet been around long enough in the country to establish a track record in what is a long-term industry.

Perhaps the most significant risk factor is what some fund managers politely refer to as cultural differences. The more frank among them simply call it lack of trust.

Even among India's top 100 companies and industrial groups, many international fund managers say they have difficulty listing more than about 20 that fall into the vague definition of "trustworthy".

The slew of corporate scandals that are a frequent feature of India's business press and widespread scepticism over the reliability of published accounts do not help to inspire confidence

"Trust is the biggest problem of the lot," said one foreign private equity fund manager who spoke on the condition of anonymity, as did other sceptics on the industry.

"The only answer is to be exhaustive in your checks and due diligence on the company you invest in."

Another fund manager said there was little concept of the rights of minority shareholders in many Indian companies. He said many companies are dominated by family management used to exercising absolute authority over their "fiefdoms" with little accountability.

"The concept of management as stewards of a company does not really exist in most Indian companies," he said, adding there is often a conflict between familial and corporate responsibilities.

"We live in fear of the day a daughter of a promoter (a controlling shareholder) gets married."

Other fund managers argue the trust factor has been overplayed. Mr Hemant Luthra, chief executive of Barings Private Equity Partners India, said: "As in other countries, there are some companies you can trust and some you cannot. It is just a matter of doing your homework to track down the ones you can."

Mr Pratip Shah, chairman of Indocean Venture Advisors, added: "Indians are commercial people. If they realise it is in their interests to be more transparent, they will change. There are just so many excellent entrepreneurs in India that meet the highest standards of professionalism, competence and transparence."

Despite this optimism, there are doubts within the industry about the opportunities in India for private equity funds.

In the "bull run" of the Indian stock market in the early 1990s, which came to a sudden end late in 1994, there was little discrimination about which companies listed.

It is generally conceded that even spurious companies could manage to float on the stockmarket.

This means a large proportion of the small- to medium-size companies that form the backbone of the private equity investment industry elsewhere are already listed. There are more than 7,800 listed companies in India compared to about 1,700 in Tokyo and 540 in Hong Kong.

"Every fund wants to make an investment in each company of about $3m to $5m and this should not comprise more than 10 per cent of its equity. However, there are just not that many companies out there of this size which have not already been invested in, and many of the remaining ones are bad," said Mr Andon Tandon, director of broker Inves-Trust.

In response, many private equity funds are choosing to invest in listed companies. Many of these companies are not too disimilar to unlisted ones with little trading or liquidity in most stocks.

Mr Luthra also said a significant opportunity for private equity funds in the future may be in strategic or supportive stakes in India's family industrial houses which are facing the first real prospect of hostile bids following the introduction of a new takeover code.

Any opportunities are subject to regulatory restraints.

Investment by a foreign private equity fund requires initial approval from the Foreign Investment Promotion Board and the Reserve Bank of India (RBI), the country's central bank. RBI approval has to be gained again when the fund actually invests into the company.

Exiting an investment entails tackling similar hurdles. RBI approval is required to sell any investment in an unlisted company.

However, this has become automatic if the sale price has been confirmed by two independent valuations.

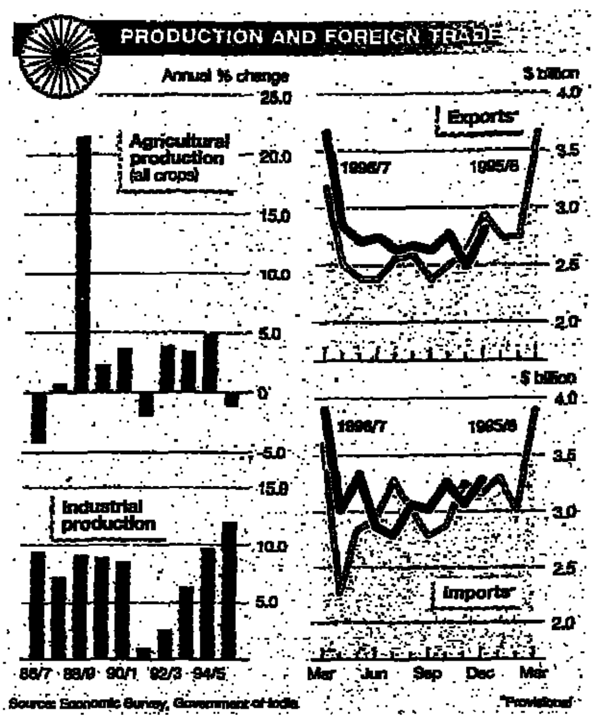
Even with a listed company, there are doubts about the ease in exiting an investment given a lack of liquidity in the Indian stockmarket for all but important scrips.

However, fund managers hope that the regulatory process for private investment will become increasingly streamlined by the first time a foreign fund exits from a deal.

"There already has been a lot of progress and that trend will continue over the next few years," said Mr Shah.

Mr T. Thomas, chairman of Indus Venture Management, also argues the returns justify the risks in the Indian private equity market.

He said even after taking into account a measured depreciation of the rupee and tax, investors should expect a return of at least 18 per cent over a five year period.



Source: Economic Survey, Government of India
*Provisional

Growth rates of selected infrastructure sectors (% per annum)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96*	1995-96* (Apr-Nov)	1996-97* (Apr-Nov)
Electricity generation	7.8	8.5	5.0	7.4	8.5	8.3	9.9	3.4
Crude oil	–3.1	–8.1	–11.2	0.3	19.3	9.0	11.6	–10.0
New telephone nos	14.7	51.5	34.2	24.5	44.0	23.3	32.5	8.3

*Provisional

Source: Economic survey, government of India

NATIONAL SECURITIES DEPOSITORY • by Tony Tassell

End of the paper chase in sight

Electronic trading will bring benefits to India's notoriously slow share markets

The headquarters of India's first share depository in the heart of Bombay's ageing textile mill district still appears to be under construction.

It is a fair reflection of the progress of the National Securities Depository since it tentatively started operations late last year to bring paperless share trading to India.

Few can doubt the long-term impact of the depository. It is widely seen as one of the biggest structural reforms of the country's capital markets since foreign investment was allowed in domestic shares nearly four years ago.

The National Securities Depository is offering investors an alternative to India's notoriously slow and antiquated settlement system for trading based on the physical transfer of share certificates.

This system has been one of the most significant deterrents to foreign investors in the past. It can often take months to receive physical delivery of shares and investors frequently face the threat of forged, faked or stolen share certificates.

The start-up of the depository is expected to cut transaction costs and see the high premium of global depository receipts over underlying domestic shares decline over time as liquidity increases.

Mr R C Bhave, NSD managing director, said the depository had intentionally made a cautious start to its operations.

"We will build up our operations steadily," he said. It would take at least two to three years before the depository would be operational to "its fullest extent".

There are currently 10 companies available for trading through the depository and shares in a further 17 are being prepared for dematerialisation (the conversion of paper certificates into electronic records).

Mr Bhave said initial trading had largely been focused on three scrips - Reliance Industries, Industrial Credit and Investment Corp of India and Indian Petrochemicals Corp. Volumes had been of token amounts.

"People are still testing out the system, building up their confidence in it," he said.

The number of scrips available for trading is expected to increase to 50 by July. This number would then be progressively increased.

The depository, which is a joint venture between the National Stock Exchange and domestic financial institutions, has dematerialised about 20m share certificates so far.

> People are still testing out the new system, building their confidence

Mr Bhave said talks were under way with Unit Trust of India, the country's largest fund manager and a shareholder in the NSD, for dematerialisation of part of its Rs550bn ($17.5bn) investment portfolio. These should be completed within a couple of months and should result in a massive increase in the pool of dematerialsed certificates.

The NSD has also attracted 18 "participants" which will act as agents for its services, Mr Bhave said. These include all foreign custodial agents active in India such as Citibank, HongKong Bank, Morgan Stanley, and Standard Chartered as well as domestic institutions and some brokers.

By July, the number of depository participants is expected to expanded to about 30 to 35.

Brokers suggest there will be strong demand for depository stocks given the risks and delays of physical settlement and because they will not attract stamp duty, as paper-based trading does. This is likely to translate into a pricing premium for depository stocks over other scrip.

Mr Bhave said the initial premium had been a small 1-2 per cent but this was likely to increase as larger parcels of dematerialised stock are traded. As the pool of dematerialised stock increases, investing in the remaining physical certificates will become more risky as the proportion of bad or fake scrip will be higher.

This premium was already drawing retail investors into depositing certificates with the NSD, Mr Bhave said.

"The retail response has been very encouraging as it has come through largely by word of mouth," he said.

Brokers, however, said most retail investor response is likely to be slow because of a reluctance to declare equity holdings to tax authorities. Investors may also face higher capital gains taxes if, as is the case with the depository system, they are unable to specify which particular shares in their holding of a company will be sold.

Institutional reaction is likely to be quicker to the depository, which marks a further step by the NSE to modernise the Indian financial market since its formation three years ago. The bourse, now the largest in India by trading volumes, has also introduced electronic trading and a clearing corporation to guarantee counter-party risk.

The pace of the development of the NSE in its short life has take the market by surprise. Many observers believe the NSD may continue that performance.

INVESTING IN INDIA

Mark Nicholson assesses the effect of Finance Minister Mr Chidambaram's daring lower-tax, high-growth budget

Gleam of light in the blackout

Half an hour after Bombay's stock market closed an ebullient 5 per cent higher in trading immediately following last month's lower-tax, high-growth budget from Mr P Chidambaram, finance minister, the lights went out.

Power supply hitches blacked out power for several hours in swathes of Maharashtra, India's most industrialised state and much of Bombay, state capital and the country's financial centre.

The power failure was symptomatic not only of India's looming power crisis, but also of its chronic infrastructural shortfalls. Indeed, a slump in power output, up just 3.4 per cent this year against a 10 per cent rise in demand, along with a 10 per cent fall in domestic crude oil production were among the chief contributors to lower industrial growth this year, which fell by 1.9 percentage points to 9.8 per cent.

It is with such deep-seated hindrances to supply in India's economy that Mr Chidambaram's daring supply-side budget must contend. But few could quibble with the finance minister's courage – or political acumen – in producing from within an ideologically-diverse, but generally left-leaning, 13-party coalition government a budget so roundly praised by business.

By cutting income taxes by 10 per cent across the board, corporate taxes by 8 per cent to 35 per cent, modifying the minimum alternate tax introduced in his earlier budget to exempt export earnings, slicing a slew of excise duties and knocking 10 per cent off India's maximum tariff to 40 per cent, the aim is to give a Reaganomic-like push to economic growth. It was also an attempt, at a stroke, to align Indian tax rates with those of its Asian neighbours.

"It really is a signal to the world that we are now among the countries, particularly in Asia, with the best structured tax systems," says Mr Rakesh Mohan, director of the National Council of Applied Economic Research in Delhi (NCAER).

The finance ministry's bet is that the tax-cutting impulse will spur nominal growth this year of 15 per cent of GDP while, they believe, keeping inflation to around 6-7 per cent and delivering real growth therefore of around 7 per cent, the average for the past three years.

The ministry is also expecting the lower taxes to boost government receipts, both by a bigger tax haul through spurred growth and higher tax compliance in a country where only 12m of its 950m citizens are registered tax payers. Mr N.K. Singh, revenue secretary, admitting that the budget contains "certain risks" in this regard, nevertheless is banking on a gross 16 per cent rise in tax receipts.

This will be necessary if the government is also to meet an anticipated 15 per cent rise in spending, much of it made with a political eye on pleasing the United Front's (UF) rural-dominated constituency. Spending on basic services, rural credit schemes, food and fertiliser subsidies are all to rise. Defence spending is up and the government is also swelling the allocation to government salaries, allocating Rs40bn ($1.1bn) on the recommendations earlier this year of India's fifth Pay Commission.

It was largely by rolling over this allocation, budgeted for but left unspent in his preceding budget, that Mr Chidambaram was able to surprise his critics and announce he had met his fiscal deficit target of 5 per cent of GDP, even though the government had failed to earn an expected Rs50bn from state asset divestments. This roll-over, combined with an exercise to cut and rationalise spending on 168 programmes also saved the exchequer around Rs25bn.

Pledging "unwavering commitment" to continued fiscal rectitude, Mr Chidambaram has set himself the goal of a further cut in the fiscal deficit next year, to 4.5 per cent of GDP. He has also tightened the constraints on the government's ability to monetise its deficit by announcing an end by April on the use of "ad hoc" treasury bills, which the government has otherwise been able to draw on tap from the Reserve Bank of India, the central bank, at an interest rate of 4.6 per cent.

The target is ambitious, and heavily contingent on hitting expected growth rates. However, the government can this year count with more confidence than last on recouping a budgeted Rs48bn from divestment proceeds, particularly if the Indian share market, last year's flatness of which was an impediment to state asset sales, sustains its new post-budget levels.

A disinvestment total approaching the budgeted sum could be raised by the two big issues stalled last year and expected to go ahead this year: one by VSNL, the state-owned international telecoms company, and another by Indian Oil Company, the state refining company.

In addition, the Disinvestment Commission established by the UF soon after its election victory last May, has recommended divestment of shares in three further state companies, with sales expected to take place this year.

Mr Chidambaram said he expects the commission to make further recommendations every month and finance ministry officials may privately expect to exceed the budgeted Rs48bn this year.

Overall, Mr Chidambaram's budget was widely hailed as a fillip for reforms and helped dispel some of the recently growing doubts and restiveness among foreign investors over the pace of India's five-year-old economic liberalisation programme.

The budget was also seen as politically adroit, offering the UF's political opponents little to complain about. The mercantilist and Hindu nationalist Bharatiya Janata Party, parliament's biggest party, could find little fault with the tax cutting. Congress, whose 142 MPs support the UF "from outside", were unable to criticise the budget either as being "anti-poor" or of stalling the reform programmes its own previous government began in the throes of economic crisis in 1991.

Nevertheless, as some critics pointed out, the budget left some pressing issues unaddressed, while also indicating that, notwithstanding the brave tax cuts, the UF government may still lack the courage to grapple with some of the more politically sensitive legacies of India's socialist past. These include moves to reform labour laws, thorough reform and privatisation in the state monopoly in insurance and real vigour in restructuring and commercialising inefficient goliaths such as ONGC, the state-run upstream oil company, Indian Railways or Coal India Limited, the state coal producer.

"The budget gave very strong signals to the world that we are going ahead," says Mr Mohan of NCAER. "But we are still not tackling some of the structural reform issues to do with the financial and public sectors."

High on the list was deeper reform of the insurance sector, which Mr Mohan, in the compendious Indian Infrastructure Report he produced earlier this year, had argued must be tackled with "some urgency" to help produce the pool of long-term funds needed to finance big, long-term road, power, telecommunications and urban infrastructure projects. "Obviously what has not been taken up is our strong recommendations for insurance reform," says Mr Mohan.

Instead, Mr Chidambaram allowed only "selected" foreign and private participation in insurance through joint ventures in health insurance.

The government also baulked at raising controlled petroleum product prices, despite the subsidies in the sector leaving an uncovered bill nearing $4.4bn. Those expecting first moves towards a timetable to phase out administered fuel prices altogether were also disappointed – a move without which there can be little hope of the necessary investment in refining.

Mr Manmohan Singh, former finance minister and an architect of India's original liberalisation, said that "all the euphoria" surrounding the budget would soon dissipate unless the government had the "nerve" to tackle the petroleum subsidy deficit.

Mr Singh, whose reformist ambitions were also stalled by opposition within his own Congress party government towards liberalising insurance, freeing oil prices or wider privatisation moves, suggested that, for all the present government's talk of "consensus" surrounding economic reform, a "heightened sense of common destiny" was still politically lacking.

The evidence of the past two or three years suggests that the will for the further outstanding reforms to dismantle burdensome inefficiencies inherited from

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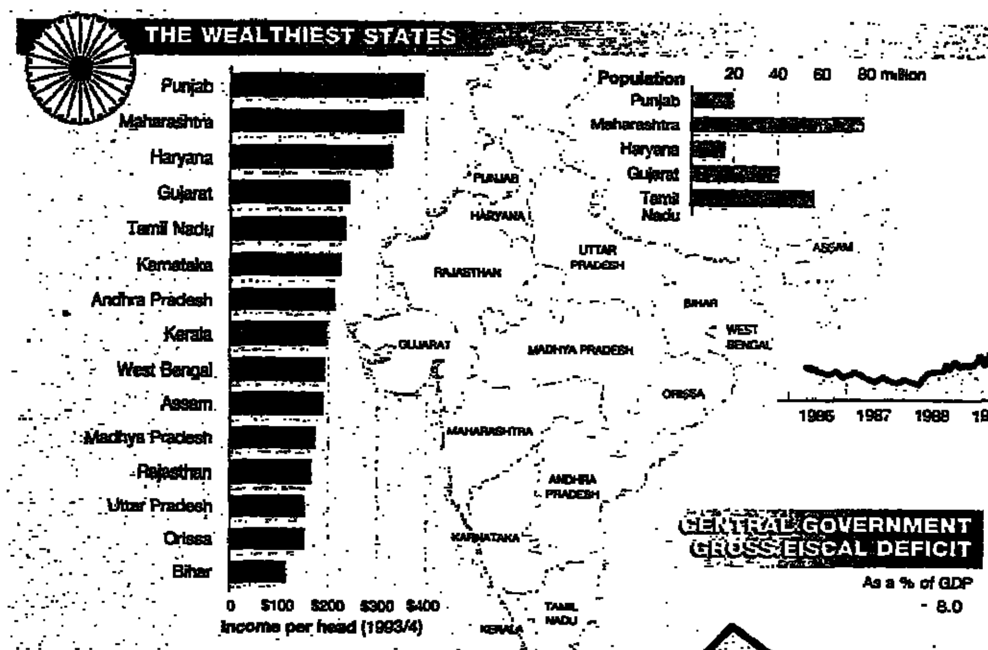
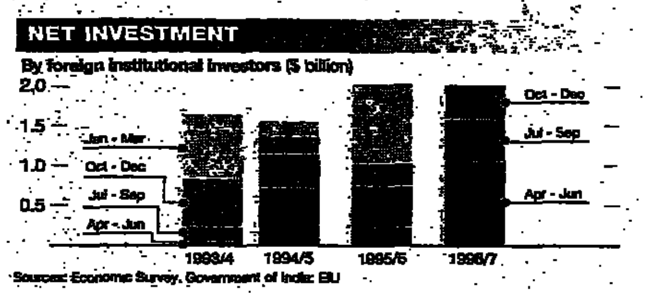
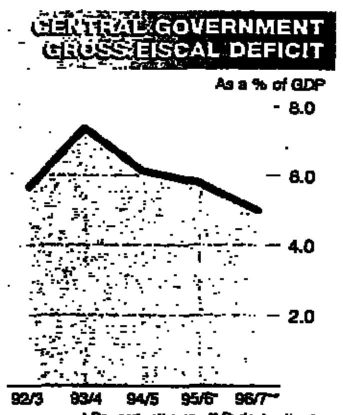
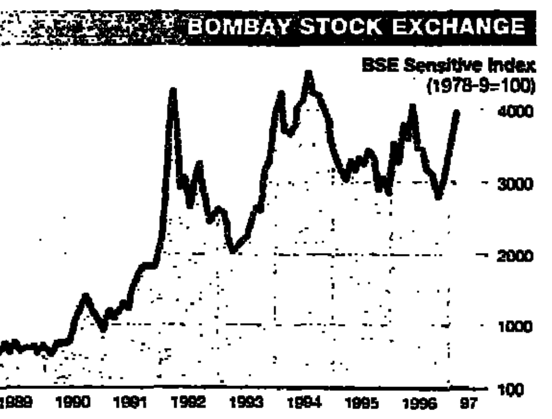
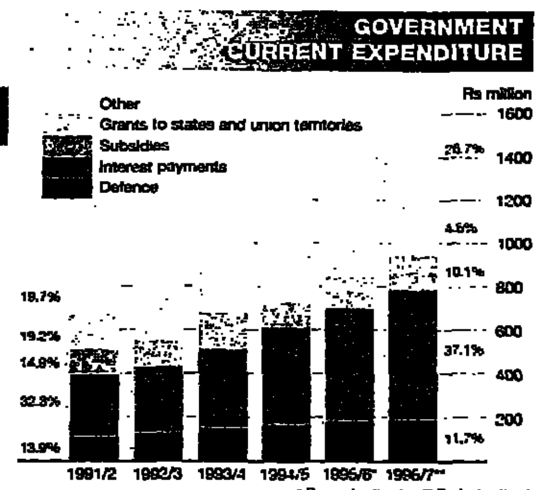










JAPANESE INVESTMENT • by Mark Nicholson

Foundations for a bigger presence

After a cautious start, Japanese companies are showing increased interest

Japanese businesses may have looked more sluggish than their US, European, or indeed Korean and Singaporean, rivals in responding to India's five-year-old economic opening. But Mr Kazuo Ishii, executive director of Jetro, recently offered such competitors an interesting comparison. "Take the case of Vietnam," he said. "America was the number one investor and Japanese investors were slow in coming. But now we are occupying top position."

To underline Mr Ishii's point, the remarks were made at an engineering trade fair co-hosted last month by Jetro. This brought 135 big and medium-sized Japanese companies to Delhi and was, he says, the biggest Japanese corporate presence anywhere in the world in the last five years.

In terms of intended investment into India, Japan significantly lags behind the US, the UK, and even Israel, as a direct investor. Total approved investments between 1979 and 1995, at Rs283bn ($7.9bn), place Japan fourth after that trio with a modest 4.8 per cent share of the total. Actual inflows are much lower.

But, as the trade fair presence indicated, corporate Japan is increasingly locking India into its sights. "Now it's a boom for Japanese companies," says Mr Tsuyoshi Koizumi, director of operations in India for Mitsubishi, the trading house. "Many Japanese companies are very interested at this moment in the Indian market. It's just started moving."

Indeed, Mr Koizumi says Mitsubishi expects to increase considerably in the next few years the $25m it already had invested in 13 joint ventures in India across a swathe of the trading house's interests, including a joint venture with Hindustan Motors to produce its Lancer passenger car.

Among other recent moves, Matsushita, another of the big trading houses, has just announced plans to invest $14m in new air-conditioning and washing machine factories. Honda said last month it plans to produce 30,000 of its new City cars a year by 2000, from a new $240m factory just outside Delhi. Toyota, its auto rival, has said it is committed to entering the Indian market, and is in talks with Kirloskar, the diversified Indian business house, with an eye to a 50 per cent joint venture.

Meanwhile, Nomura recently became the first Japanese financial institution to dip its toes into the Bombay market, announcing plans to buy a 40 per cent stake in UTI-Securities, part of the state-run Indian mutual fund company. Bridgestone, the tyremaker, is completing a new plant in Madhya Pradesh. Fujitsu, which already has a computer hardware and software joint venture with ICL, its UK computer company, has completed a new plant in a second tie-up with Optel, the Madhya Pradesh state electronics group, to manufacture telecoms equipment.

Though the scale of Japanese investment may be set to increase, it is being built on foundations laid earlier. Many big Japanese companies have long been in India – Mitsubishi, for example, has roots predating 1940. Since the mid-1980s, Suzuki has held a half share with the Indian government in Maruti, the carmaker which, with what are essentially Suzuki 800cc, 1000cc cars and jeeps, holds more than two-thirds of India's passenger car market.

Meanwhile, Japanese groups including Honda, Suzuki and Kawasaki have, through longstanding joint ventures with Indian partners, put their brand names on about 40 per cent of the motorcycle sold in India, 13 per cent of the scooters and 30 per cent of the mopeds.

Not all the foundations, however, have proved firm for Japanese investors. Several big carmakers, such as Mazda and Toyota, came unstuck with joint venture investments during the 1980s in the truck market in India, where the higher cost of their generally small-scale operations found them soundly beaten off by local suppliers, such as Telco, the auto arm of the Tata group. Mazda's Indian truck operation, for example, made its first profit only in 1994, a decade after the initial investment.

Jetro officials and Japanese executives cite this as one of a series of reasons why the opportunities provided by India's economic liberalisation and industrial deregulation in 1991-92 werenot greeted more enthusiastically by Japanese companies. Others include the fact that Japan was in recession at that time – and the closer lure of its "tigerish" neighbours was more immediately appealing.

"In the recent past, Japanese companies have been occupied in Asean countries, China, and Vietnam, which had opened up before India," says Mr Ishii.

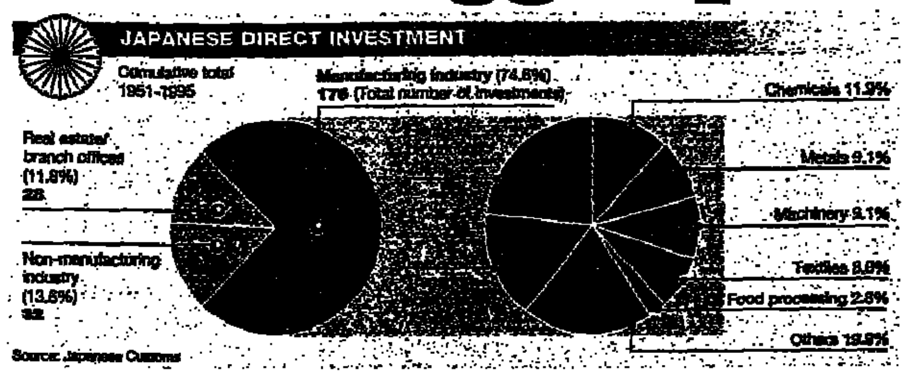
But while Japanese executives suggest that the prospective size of India's market has compelled them towards expansion in India, they have also tuned in quickly to the tempered sentiment of US, British and other earlier investors. Many of these have found deregulated India, for now, a smaller, tougher and more complex market than they had expected.

"We thought the market was 150m people," says Mr Kimihiro Itoki, business developer in India for Sony, which last year opened a wholly-owned $16m manufacturing unit in Haryana state. "But actually, the number of people who buy branded goods is much smaller, perhaps the size of Vietnam or Malaysia."

In particular, with much of the accent of recent Japanese investment in consumer goods industries, such as electronics and cars, companies are taking a very long view. Honda, for example, says it has few illusions about competing in an increasingly crowded car market, into which Ford, General Motors, Daewoo, Peugeot and Fiat have already ventured, and where others including VW and Hyundai are set to follow.

"There are too many players in the same market in the same period," says Mr Yoshiaki Nakamura, Honda's marketing director in India. But, he says, unless Honda invests now, it cannot hope to bring down component and vehicle costs sufficiently, through a phased programme of localisation, to make its cars competitive by early next century.

With it, inevitably, the Japanese presence in India will grow, too. Some bright spark ought to consider setting up India's very first sushi restaurant right now.



NON-RESIDENT INDIANS • by Tony Tassell

Frustrated diaspora

Expatriates would like to play a bigger role in developing the economy

A curious but influential new caste has emerged in India over the past 20 years – the non-resident Indian or NRI, part of an extended diaspora around the world estimated to number 15m-18m people.

For the Indian economy, the NRI – sometimes wryly translated to Not Really Indian or Not Respected Indian – represents a significant and under-exploited pool of investment funds. Government officials estimate the assets owned by the NRIs to be between $130bn and $200bn, but their level of investment in India over the past five years has been less than 1 per cent of this.

In contrast, overseas Chinese have played a very important role in China's economic success over the past 10 years, accounting for the majority of inward investment inflows.

The reasons why overseas Indians have not invested to the same extent as their Chinese counterparts are as many and as varied as there are factions in the highly-politicised and sometimes fractious NRI business community.

Lord Paul, head of the Caparo international steel group, says that when China reopened its doors to overseas Chinese, there was virtually no significant business community left in the country. In contrast, he says India has a well-established, politically-connected business community, some of whom had vested interests in opposing the entry of NRIs.

Another prominent UK industrialist, Lord Bagri, chairman of the London Metal Exchange, adds that while the Indian diaspora may be large in number, the number of successful Indian industrialists is still small. Overseas Indians have been more successful in professions and at the middle level of management and business, he suggests.

"There is a large pool of overseas Indians enjoying wealth of up to about $5m but the number owning large business groups is small, compared with the Chinese," he said. "Even those with private wealth and a few million dollars to spare tend to invest in areas such as shares, property and deposits."

Another commonly cited deterrent to NRI investment is the attitude of the Indian government and delays in gaining approvals for projects. "The Chinese government has been much more receptive to overseas Chinese than the Indian government has been to overseas Indians," says Lord Paul who unsuccessfully tried to take over two Indian companies, Escorts and DCM, in the early 1980s.

According to Lord Paul, it is virtually impossible to gain approvals quickly for large industrial projects in India without resorting to corruption. He says the government needs to show a genuine desire to attract investment by speeding up the implementation of projects, not just announcing policies to do so. "There needs to be less talk and more action," he says.

Lord Bagri agrees, arguing that although initial clearances can be obtained relatively quickly, projects can then be tied up in knots by delays in secondary clearances for such things as water, power and port facilities. He also believes corruption exists in India but argues that this is certainly not exceptional in other Asian countries.

Direct investment inflows from NRIs

	$m
1991-92	89
1992-93	81
1993-94	217
1994-95	442
1995-96	715
1996-97*	446

*April 1 to September 30, latest figures available

Mr Srichand Hinduja, chairman of Hinduja, the trucks-to-trading business house, says his group has faced many delays to carrying out a high-profile plan, announced two years to invest $6bn in a variety of projects around India.

Mr Hinduja says government policy should be amended so projects are awarded to investors with all permissions and clearances granted. "This will avoid frustrations and delays," he says.

Mr Ram Buxani, the Dubai-based president of the Overseas Indians Association, says the simplest way to boost NRI investment inflows is to improve communication with the government. He also argues nominees should be appointed to parliament to represent the interests of overseas Indians, many of whom still hold Indian passports but cannot vote in elections.

Discrimination against NRIs is also resented. "All Indians should be treated as Indians, whether they reside abroad or in India," Mr Hinduja says.

ON-LINE TRADING • by Kunal Bose

Regional exchanges fail screen test

The computerised National Stock Exchange has proved popular with investors

India's 21 regional stock exchanges – with the exception of Bombay – have been experiencing difficult times since trading in shares on the National Stock Exchange (NSE) began on November 4, 1994.

Screen-based trading on the NSE had long been sought by domestic and foreign institutions as well as individual investors, many of whom had complained of the previous lack of transparency in stock trading.

NSE quickly emerged, therefore, as the preferred exchange in the country.

"The regional exchanges have themselves to blame for the sharp fall in their daily business turnover. They refused to respond to the investors' demand for computerisation of trading, trade guarantee and quick settlement. The investors were looking for an alternative to the regional exchanges which they found in NSE," said Mr Ajit Dey, a former president of Calcutta Stock Exchange.

CSE has been repeatedly pulled up by the Securities and Exchange Board of India (SEBI), the regulator, for its failure to modernise its trading system. According to Mr D.R. Mehta, SEBI was unhappy that the exchange had taken too long in introducing screen based trading.

"The brokers of the exchange maintain that a shorter settlement period will lead to a further fall in the volume of business. But this has not happened in other centres. It is in the interest of the brokers that CSE keeps pace with the forward looking exchanges," he says.

SEBI has made it compulsory for all stock exchanges to introduce computerised trading by March 31, 1997. According to Mr P.K. De, secretary of CSE, which is investing Rs240m ($6.69) in an on-line trading system, it has begun screen based trading with a limited number of shares. "The system will cover all other shares by April 4. The new trading system will allow us to reduce the settlement period from 14 days to seven days," said Mr De.

However, only about 500 of the nearly 800 members of CSE have gone for on-line trading. Business over the last couple of years has been so bad that many brokers are unable to make the investment needed to connect to the CSE system. "Our members are supposed to contribute Rs100m to the exchange's computerisation budget. But they have so far paid us Rs50m and they have told us they will pay the balance amount in instalments," said Mr De.

CSE, which was the last among the big regional exchanges to modernise its trading system, has seen a big fall in its volumes of business. Mr De admitted that there is very little trading which leads to delivery of shares, with only about half a dozen shares actively traded on the exchange.

In some of its recent reports SEBI has criticised CSE for its failure to curb excess speculation. SEBI does not think that CSE is doing enough to stop kerb trading after the official trading hours.

Mr Dey has promised that most of the problems that afflict CSE today will be overcome once it goes fully on-line. But to find favour with investors again, it must create a clearing corporation, and ensure that buyers are not stuck with bad deliveries and that payments are guaranteed.

The regional exchanges in the southern parts of the country went on-line well ahead of Calcutta, but NSE has still taken away the major part of their business. Mr Navin Suchanti, managing director of Pressman Securities, which is a member of both NSE and CSE, said that most of its clients had said that they wanted their business to be done on NSE, where the spread between buy and sale rates is much smaller than on other exchanges.

"Trade guarantee and resolution of all disputes relating to transactions within 21 days have put NSE well ahead of other exchanges," he points out.

With the fall in volume of business on CSE, the list of companies asking for delisting of their shares is increasing. The other regional exchanges are also facing the same problem. SEBI rules require that companies making a public issue of shares must get these listed on the local stock exchange but the primary market is so depressed that not many new companies are making share offerings.

For most exchanges new share listings are infrequent therefore. Some of the exchanges such as Madras and Cochin have been forced to sell properties to shore up their finances, while CSE has been drawing on its reserves to pay for the expenses.

"NSE, which offers trading facilities at 72 locations in the country, has taken the wind out of regional exchanges' sails. By March 31, NSE will open 28 more trading centres. NSE has created regional clearing houses in Delhi, Calcutta and Madras with the central clearing house in Bombay. It has put in place a national securities depository. Scripless trading has also begun on NSE," said Mr Dey.

Regional exchanges such as Ahmedabad, Calcutta and Coimbatore think that they will be better placed to face the competition from NSE as a result of inter-connection with the Bombay Stock Exchange on-line trading network. "CSE will be meeting on March 26 to take a final decision on the link-up with BSE. Ahmedabad's alliance with BSE could be the model for us," said Mr De.

The stock exchanges in Bangalore, Mangalore, Hyderabad, Indore, Baroda, Bhubaneswar and Ludhiana are exploring the possibility of inter-connectivity among themselves.

"Unfortunately, the NSE challenge came when the stock market was going through an inordinately long bear phase," said Mr Suchanti. "It is only after the presentation of the federal budget on February 28 that the stock prices have started rising and the volume of business has increased."

DEBT MARKET • by Tony Tassell

Domestic debt shapes up

Loosening constraints on the debt market will attract foreign investment

Foreign investor interest in the Indian debt market is set to take off in 1997.

While foreign institutional investors (FIIs) have poured more than $7bn into Indian equities since they were allowed into the country in 1992, they have only been token participants in the domestic debt market.

Foreign investor appetite for Indian debt paper has been largely restricted to issues on the international market, despite FIIs being allowed to invest up to 30 per cent of their funds under management in debt.

This situation is likely to change fast in reaction to a combination of regulatory changes and the continued development of the market.

Recent moves by the Indian government to allow FIIs to invest in gilts and to set up mutual funds dedicated to the money market has already generated a strong response.

Three foreign debt mutual funds, to be managed by J Henry Schroder Bank, Chescor and Credit Suisse, have already been granted the go-head, and permission for a fourth to be set up by HSBC was imminent at the time of going to press.

Applications are pending for a further nine funds according to officials with the market regulator, the Securities and Exchange Board of India.

Analysts say this may only be the start of things to come. The potential for further growth is clear for a debt market which already ranks as the largest in Asia after Japan and Korea in terms of primary issues.

Much of India's huge capital needs in the coming years will have to be financed through foreign debt.

In infrastructure development alone, a recent government-commissioned report estimated the country will require investment of about $115bn to $130bn over the next five years. The report estimated about 15 per cent of this investment will be externally-financed.

At the same time, the appetite for India's high-yield debt paper among foreign investors is also growing as highlighted by a couple of recent landmark issues on the international market.

Last month Reliance Industries, the petrochemicals to textiles company, became the first private sector company in Asia to make a 100-year bond issue. In another innovative deal, Indian Petrochemicals made a convertible bond issue which used a bank guarantee to obtain a higher debt rating than the sovereign ceiling for India.

Mr Aashish Pitale, head of debt research at ICICI Securities, said the high yields of Indian debt paper were expected to drive foreign investor interest.

He said that after taking into account a 6 per cent annual depreciation of rupee, Indian five-year government bonds with a yield of about 13.5 per cent would offer investors a net return about 140 basis points above the six-month US$ Libor rate.

Mr Pitale said the attractiveness of such an investment is highlighted by the fact that a similar investment in Indonesia would yield a net return of about 80 to 100 basis points above Libor, despite the fact that Indonesia's credit rating is lower than India's.

"We think the kind of yields seen on Indian paper will attract a lot of foreign interest," he said.

On the flip-side, the yields on Indian paper reflect a level of risk.

Analysts say the depreciation of the rupee remains a concern. Suggestions are that the rupee would depreciate against the dollar by an average of 6 per cent a year and that movement could be "lumpy" with the currency remaining steady for extended periods and then dropping suddenly.

Due to government regulations, foreign investors cannot hedge against this risk onshore. If no hedge is found offshore, then foreign investors have to take a "naked exposure" if they take up Indian paper.

Lack of liquidity in the secondary debt market has been a long concern for foreign investors, although this is picking up. Despite the size of the primary market, the secondary market has been long dormant with domestic institutions rarely trading their portfolios. They prefer to keep debt paper in their vaults until maturity.

Trading in the secondary market was hit by the Bombay Securities scam in 1992. Traders were found to be siphoning off funds from the interbank money market to invest in equities. The scam triggered a regulatory crackdown on speculative activity and saw bank treasury managers adopt a risk-averse, conservative trading stance.

Daily debt turnover on the National Stock Exchange, the country's main bourse for screen-based debt trading, has now recovered to around Rs3.5bn ($100m), still only a fraction of the total market size of Rs3,000bn ($85bn) but more than double the turnover this time last year.

This activity is about one-third of the total secondary debt market trading, most of which takes place over the telephone between market participants.

Mr Shekar Sathe, vice-president at broker Kotak Mahindra, said daily turnover on the NSE is expected to grow over the next few years to at least Rs10bn.

He said banks were being required to increasingly mark their debt investment portfolios to market, valuing them in their accounts at current market values. This was expected to encourage them to trade further.

There remain, however, other constraints for foreign investors in the debt market. No clearing house exists yet for debt securities for corporate or public sector companies, although the Reserve Bank of India acts as one for government paper. Settlement is still based on the physical delivery of securities with no debt depository set up.

Complex and differential rates of withholding tax and high stamp duties on debt transactions have also inhibited foreign investor interest in the debt market. A lack of transparency in the secondary market due to the high proportion of telephone-based trades has been another deterrent for foreign investors.

Mr Nikhil Johri, head of fixed income at broker Peregrine India, said foreign investment in the debt market was currently capped to $1.5bn by a ceiling on external commercial borrowings in the current fiscal year to March.

He said, however, the RBI may announce an increase in the cap in its six-monthly statement on credit policy in mid-April together with possible other reforms of the debt market.

Mr Johri added that the future direction for foreign investors in the Indian debt market is clear.

"We expect much more activity from foreign investors in the next 12 months," he said.

Sectoral real growth rates (%)

Industry	Average 1985-90	Percentage change over the previous year 1992-93	1993-94	1994-95[1]	1995-96[2]	1996-97[3]	Average 1992-97
Agriculture and allied sectors	3.4	6.1	3.6	4.6	–0.1	3.7	3.6
Industry	7.5	4.2	6.8	9.4	11.6	8.7	8.1
Mining and quarrying	9.0	1.1	2.0	8.1	7.0	1.7	4.0
Manufacturing	7.7	4.2	8.5	10.2	13.6	10.6	9.4
Electricity, gas and water supply	9.5	8.4	7.1	8.6	9.1	4.2	7.5
Construction	5.2	3.4	7.3	7.5	8.8	7.4	7.3
Services	7.4	5.5	7.3	7.5	8.8	7.4	7.3
Trade, hotels, transport and communication	7.1	6.3	7.5	10.0	13.3	9.4	9.3
Financing, insurance, real estates and business services	8.3	4.6	10.5	7.1	4.0	6.3	6.6
Community, social and personal services	7.3	5.0	3.9	3.8	6.2	4.9	4.7
Total GDP at factor cost	6.0	5.3	6.0	7.2	7.1	6.8	6.5

[1] Provisional; [2] Quick estimates; [3] Advance estimates

Source: Economic survey, government of India

PRIVATISATION • by Kunal Bose

State ownership begins to lose favour

Funds are no longer available to keep once cherished lossmakers going

The Marxist-dominated Left Front, which throughout its 20 years period of power in West Bengal has been a champion of state undertakings, has gone through a metamorphosis: it has conceded that there is no way the government can continue to pay for the losses that the state corporations regularly incur, and in August last year it handed over Damodar Slag & Cement to ACC, India's largest cement group.

Defending the sale decision, Mr Mrinal Banerjee, minister for public undertakings and a trade union leader, admitted that the state was not able to mobilise funds and managerial resources to turn around the cement unit despite its potential, given West Bengal's position as a net importer of the material.

Mr Banerjee, who is in charge of a portfolio of two profit-making and 20 loss-making units in a variety of industries, including engineering, shipbuilding, pharmaceuticals, chemicals and agro products, has the support of Mr Jyoti Basu, the octogenarian Marxist chief minister, for the policy of inviting the private sector to partner the state government in reviving the sick units. "We are offering majority holdings to the private sector. In fact, we will be quite flexible about the ownership pattern if the credentials of private parties are right," he said.

Whether the state will be able to find buyers or joint sector partners for several of its undertakings is a matter of some doubt, however. The Calcutta-based Indian Chamber of Commerce says some units should be scrapped and warns that potential buyers will need the assurance that downsizing will be allowed at others. "We hope the government will be able to make the unions see reason," a spokesman said.

In neighbouring Orissa, the state government has decided to privatise 11 perennially loss-making public sector units and has warned that undertakings, for which there are no takers, will be wound up.

According to Mr Sidhartha Pradhan, additional secretary to the department of public enterprises, the Orissa government has decided to reduce budgetary support to state undertakings so that more money is available for social sectors, such as health and education. The accumulated losses of state undertakings are more than Rs4.3bn ($119.8m).

The state government will not, however, attempt the privatisation of five chronically lossmaking undertakings which are engaged in promoting new ventures or providing essential services, such as transport.

The Road Transport Corporation has been told, however, that it must reduce manpower by at least 1,500 on the basis of last come first go, and a cabinet sub-committee headed by the deputy chief minister has warned that if the working of RTC does not improve in a year then its "liquidation would become inevitable".

The government has also decided to spin off several of its profit-making units into joint ventures. "The expansion of such units will become easier if we offer equity to private parties," said Mr Pradhan.

According to Mr S.B. Mishra, additional chief secretary to the Orissa government, the cabinet had decided that some of the subsidiaries of the profitmaking Orissa Mining Corporation and Industrial Development Corporation would be turned into joint ventures. This would optimise capacity utilisation and ensure full advantage was derived from investments already made in them.

IDC has received 36 bids in response to its offer of a 51 per cent stake in IDCOL Cement which owns a 1m tonne plant and rich deposits of limestone. All the large cement groups in the country, as well as Blue Circle of the UK, and Thai Petrochemicals want control of IDCOL Cement which offers good scope for expansion.

Orissa abounds with mineral resources and several multinational corporations may want to exploit these. "They could become partners of OMC," said Mr Pradhan.

The principal concern of the administration is to ensure privatisation moves are conducted in as transparent a manner as possible. For this reason, the state has engaged the services of some of the country's leading merchant bankers to make a valuation of the units identified for privatisation.

Orissa's reform of the power sector, which led to the disbanding of the notoriously inefficient State Electricity Board, and the creation of three separate agencies for the generation of coal-fired and hydroelectric power and distribution of power is seen as the model for other states.

Orissa Power Generation Corporation, which owns two thermal units of 210 MW each, is to sell 25 per cent equity by way of private placement. Hydro Power Corporation and Gridco will also follow the same route.

To make a success of privatisation, the Congress(I) government in Orissa needs political consensus. Fortunately, the disinvestment process was started by the earlier Janata Dal government which sold a charge-chrome plant to Tisco, the country's second largest steel group, and handed over three sugar mills to private companies on management contract basis.

Gujarat, one of the country's most industrially developed states, which started the disinvestment campaign at the state level, is now going further by implementing a partial disinvestment from promotional agencies such as the Industrial Investment Corporation and State Finance Corporation.

Uttar Pradesh, the country's biggest state, saddled with a large number of sick public sector units, is likely however, to make little progress with privatisation, owing to the lack of consensus among the political parties. The government has had to withdraw some sale offers even after the buyers had been chosen.

THIS WEEK

A harsh message reaches Mr Cap

DATELINE

Brussels: Europe's agricultural policy has recently been attacked in print by a journalist in a way which breaks every taboo, writes **Lionel Barber**

Emanuele Gazzo was always going to be a hard act to follow. Journalist and commentator, he knew all the movers and shakers in Europe, from Jean Monnet and Walter Hallstein to Etienne Davignon and Jacques Delors.

For more than 40 years, the diminutive Gazzo was editor-in-chief of Agence Europe, still the best daily digest of Euro-news for Brussels correspondents. He also wrote a column famous for its passion and pro-European convictions. Reading Gazzo every morning was a short cut to discovering what was on the mind of the establishment.

When Gazzo died in 1994, he was succeeded by Ferdinando Riccardi, a fellow Italian and collaborator since 1958. Ably supported by Gazzo's identical twin daughters, Riccardi has continued Agence Europe's tradition of delivering the news in a flat, objective style. Not for Ferdinando the cut-and-thrust of the Anglo-Saxon school – until last week, when he wrote a two-part column about Europe's common agricultural policy which broke almost every taboo in the book.

The Cap budget, wrote Riccardi, had been bloated well beyond its needs as far back as 1988, when Jacques Delors secured German backing for a huge increase in EU spending. Billions of Ecus have been wasted on farm price supports; fraud has exploded; and unjustified hand-outs to farmers have escalated.

"A second revolution is on the horizon for European agriculture: a reduction in spending for managing the market," he wrote. Riccardi stressed that he was not attacking farming *per se*, only the policies which allowed some large landowners to line their pockets through generous income supports when market prices – for example, in cereals – are as strong as ever.

The background to Agence Europe's intervention lies in a power struggle inside the Commission between traditionalists struggling to keep the Cap intact and reformers calling for an end to spendthrift policies and tighter budgetary management.

The Cap accounts for more than Ecus 40bn ($45bn), almost half of annual EU spending. The farm lobby's official residence in Brussels is Directorate General VI, inside the Commission. It is headed by Guy Legras, a Frenchman known as Mr Cap.

Legras runs the 800-strong directorate with an iron hand. He is also said to have a hot-line to Paris and the French cereal barons. Hence the joke inside DG VI that there are two directors for cereal policy: one the official nominee, the other Legras.

In the Delors era, Legras reigned supreme. He also proved a brilliant negotiator in the Gatt Uruguay Round, obtaining concessions from the Americans which many had thought impossible when France demanded fresh concessions on farm export subsidies. But times are changing.

Legras, with the rest of DG VI, has suffered from the after-effects of mad cow disease. With hindsight, his insistence on preserving confidence in the market may have short-changed consumers who risked contracting BSE from contaminated beef. President Jacques Santer has since stripped DG VI of responsibility for consumer safety and handed it to Emma Bonino, the flamboyant Italian commissioner who handles fish and humanitarian aid.

Second, DG VI is feeling the blast of competition in the shape of Erkki Liikanen, the up-and-coming Finnish commissioner. A former finance minister, Liikanen is determined to introduce a new "budget culture" in the Commission. This means matching the budget discipline in the member states, all of which are racing to meet the Maastricht targets for economic and monetary union.

As a result, there will be next to no real growth in the farm budget in 1998. The farm lobby responded last month with dire warnings that a 0.5 per cent real increase would signify an Ecus 2.5bn deficit in the farm budget and price cuts of between 1 and 5 per cent.

Liikanen and Santer, both of whom can read a balance sheet, suspected that DG VI had exaggerated the level of adjustment needed in order to make the whole cuts exercise less palatable. Its aim, in fact, was to continue the age-old ruse of over-budgeting.

In fairness, a generous kitty is useful to counter currency swings which plague farm prices or, like last year, to come up with Ecus 1bn to bail out BSE-affected beef farmers. But as one official says, the kitty has also been used to pay off less deserving causes such as the Spanish beekeepers who are worried about honey prices.

Last week Franz Fischler, the Austrian agricultural commissioner, bowed to pressure and revised his 1998 figures. Prices will remain the same. Meanwhile, he intends to press reforms on the worst sectoral offenders, such as olive oil and tobacco.

None of the above suggests that the Commission is about to dismantle the Cap. It would be foolish, too, to count out the farm lobby, especially with parliamentary elections looming next year in France and Germany. But the message in Riccardi's Cap column is as powerful as anything written by his predecessor: the status quo will not hold.

The Monday Profile: Martin Owen, NatWest Markets

Taking on the world

Martin Owen does not fit the image of an investment banker. Instead of having an English or American accent, his is Welsh; instead of acting with arrogant briskness, he is chatty and unpretentious. Yet in his understated way, Owen is attempting to take on the world.

The fact that National Westminster Bank has entrusted its effort to propel itself, from a standing start, into the first rank of global investment banks to an accountant who sings in a Salvation Army choir, seems strange to some of its rivals. They question whether such a homely figure can command attention among highly-paid and temperamental corporate financiers and bond traders.

They also question whether Owen has been tempted into over-paying for a range of businesses, including Greenwich Capital, the US bond trading firm, and Hambro Magan, the British corporate finance boutique, in his bid to compete with established investment banks. His creation, NatWest Markets, has yet to prove it is a coherent whole.

Yet at least until last week, Owen appeared to be vanquishing scepticism. Having melded NatWest's treasury and capital markets arm with the remains of the ill-fated County NatWest merchant bank (damaged by its involvement in the Blue Arrow affair), he had seemed to produce notably better results during 1996 than Barclays BZW.

That was before NatWest discovered that its fixed income swaps department had not made as much money during the year as it appeared. Kyriacos Papouis, a 30-year-old trader who left the bank at the end of the year, is now accused of over-pricing his portfolio by £50m ($81m) and NatWest's reputation for risk management, and its momentum, have been damaged.

NatWest's latest difficulty presents Owen with a challenge in preserving his reputation for running a tight ship. As a former head of the capital markets arm in which Papouis worked, and a specialist in risk management, it is embarrassing for Owen that Papouis appeared able to misprice options over a long period without anybody finding out.

Yet Owen has faced bigger challenges than Papouis's legacy. There were not many who believed Owen would get this far when he chose the name NatWest Markets four years ago. Sceptics included staff of the former Wood Mackenzie, the broking firm NatWest bought during the Big Bang de-regulation of the City of London in the 1980s.

"Martin may not look or sound like an investment banker, but you have got to judge him by results. In the early days, he was practically the only one in the building who would even refer to the place as NatWest Markets," says a banker who worked with Owen.

Colleagues say he has managed to weld varying parts of the business by working hard, and by displaying down-to-earth charm.

Owen's energy and drive strike a chord with the increasing number of US investment bankers in senior positions at NatWest Markets. "I can only say good things about the guy," says Stephan Harris, head of the bank's bond and treasury operations. "He does not wobble or panic if I bring a risk problem to him, and he has a real vision for the investment bank".

Owen, 49, came to his job via an unusual route. He started his career as a chartered accountant, then worked in Wales for the US company Dow Corning and for Harlech Television, forming his own accountancy firm at the age of 30. That expanded into insurance broking before Owen sold the business in 1979.

He then spent three years working full-time for the Salvation Army, distributing food to poor people and organising meetings. However, he managed to gain an external doctorate from the University of Southern California in risk management at the same time. Then he returned to paid employment, joining NatWest via a stint as a financial supervisor in the Isle of Man.

Perhaps as a result of all this experience, Owen does not lack self-confidence. He does not talk or act like an investment banker, but he shows no sign of doubting his ability to get disparate talents to work as one. Others remain sceptical, particularly about recent acquisitions such as the US advisory boutique run by Eric Gleacher, a Wall Street veteran.

"I think his Achilles' heel is that he does not really seem to be part of that world. You wonder whether some of those people really think he is the boss," says one banker.

Stephan Harris maintains that this is unfair. "I had some questions about Martin's ability to lead an investment bank five years ago, but I have really seen him grow as a manager during that time," says Harris.

John Gapper

FT GUIDE TO:

NUCLEAR WASTE DISPOSAL

What is at issue in the confrontations between anti-nuclear demonstrators and police in Germany?
Thousands of demonstrators tried and failed last week to stop six 100-tonne containers reaching the nuclear storage facility at Gorleben in Lower Saxony, northern Germany. They hold highly radioactive waste from two German nuclear power stations and from the reprocessing plant at Cap de la Hague in France.

Why is anti-nuclear Germany taking radioactive waste from pro-nuclear France?
The French consignment originated in Germany. Spent nuclear fuel rods from German reactors go to Cap de la Hague and to the British Nuclear Fuels plant at Sellafield for reprocessing – the separation of re-usable nuclear fuel from useless waste. But the contracts call for the radioactive waste to be returned to Germany afterwards.

Anyway, the waste got through to Gorleben so the German nuclear authorities must be pleased.
Their victory may be pyrrhic. The green movement believes the televised sight of Germany's biggest post-war security operation, involving 30,000 police and security guards, will turn public opinion further against nuclear power. And the state of Lower Saxony is objecting not only to the disruption but also to meeting policing costs estimated at DM100m (£35m). Two similar operations to defend shipments in 1995 and 1996 were almost as costly. State officials hint that they would not allow further nuclear convoys to Gorleben.

What would happen to Germany's nuclear waste in that case?
Newly produced waste would have to be stored where it is produced: in expensive facilities at individual power stations. That is already done in many countries. But on-site storage would not solve the problem of the waste that Germany is obliged to take back from France and the UK. Politicians in northern Germany say that specialised nuclear storage facilities should be built in the south, which is richer and more pro-nuclear – or less anti-nuclear – than the north.

The German government says waste shipments are inevitable if the country is to continue with nuclear power, while the green movement wants to make the shipments so difficult and expensive that Germany has to phase out nuclear electricity.

Have other countries been more successful than Germany in dealing with their nuclear waste?
Germany has the worst record of violent confrontations because its anti-nuclear movement is so strong. But no country has come up with a satisfactory solution to the problem of radioactive waste, now the biggest obstacle to the nuclear industry's hopes of a revival in the next century. Even in the most pro-nuclear countries, people object to plans for a dump in their backyard.

What would a satisfactory solution be?
From the industry's point of view, it would be to bury the radioactive wastes permanently, deep inside geological strata that will remain stable and dry for tens of thousands of years. Anti-nuclear campaigners oppose permanent disposal. They say it would be impossible to guarantee the long-term safety of any depository, so wastes should be kept securely in temporary storage facilities where they can be monitored.

Have any permanent disposal sites been identified?
There are candidates in several countries, including salt mines near Gorleben, but all are highly controversial. The UK industry wants to build a permanent underground depository for intermediate-level wastes close to Sellafield as soon as possible. The most dangerous high-level wastes would be "vitrified" – turned into glass blocks – and stored at Sellafield for at least 50 years until they had cooled down enough for permanent burial. But a more serious nuclear waste crisis is developing in the US.

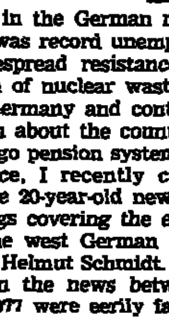
Why is that?
Because the US has no central facility for handling, processing, storing or disposing of nuclear waste. More than 20,000 tonnes of spent fuel are in temporary storage in pools or steel and concrete casks at 109 reactors across the US, and some plants may have to shut down as their storage facilities fill up during the next few years. The federal government is supposed to be providing a central disposal site, but some scientists have challenged the safety of the only candidate, Yucca mountain in the Nevada desert. Even the industry's optimists accept that it is unlikely to be operational before 2010-2015.

Nuclear technology created the waste in the first place. Couldn't it help to destroy it?
In principle, yes, by the process of transmutation. Long-lived and highly radioactive elements can be converted into shorter-lived and less dangerous materials by bombarding them with neutrons from a reactor or particle accelerator.

Experiments in transmutation are being carried out at the French Superphénix fast reactor and at the Los Alamos and Brookhaven national laboratories in the US. But few believe that is an affordable or practical solution for the tens of thousands of tonnes of radioactive waste piling up around the world.

Clive Cookson

Peter Norman • Economics Notebook



Germany's bad case of déja vù

Headlines from newspaper clippings of 1975 appear eerily familiar

Prominent in the German news last week was record unemployment, widespread resistance to the storage of nuclear waste in northern Germany and continuing concern about the country's pay-as-you-go pension system.

By chance, I recently came across some 20-year-old newspaper clippings covering the early years of the west German government of Helmut Schmidt. The problems in the news between 1975 and 1977 were eerily familiar.

Then, as now, Germany's pension system seemed threatened with a huge deficit because ever more old people had to be supported by a shrinking working population. Gorleben, the nuclear waste storage site in Lower Saxony, was just starting its career as a focus of popular resistance to the peaceful use of nuclear energy. The construction industry was in serious recession after the runaway boom a few years before. More worrying was the persistence of high unemployment at record levels.

In the intervening years, the country has grown in size thanks to reunification. However, the problems, especially in the labour market, have grown even more. Unemployment reached 4.67m in February. There are now 3.26m jobless in the former western Germany compared with the 1m which caused so much concern in the mid-1970s. Unemployment in the new *länder* of eastern Germany, at 1.41m, also exceeds the west German level 20 years ago.

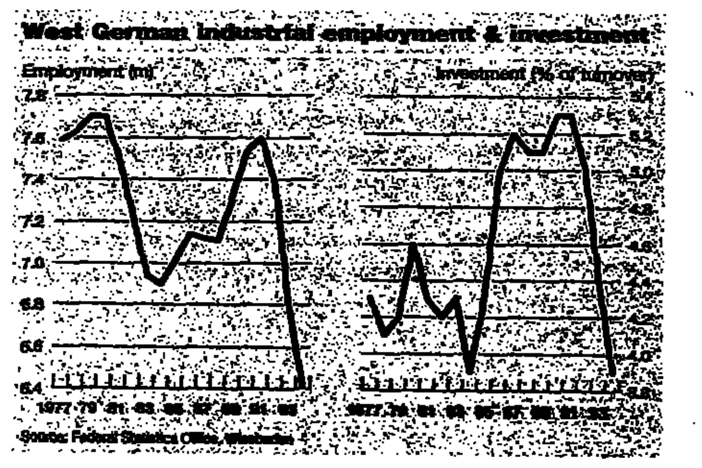
In the mid-1970s, as now, policy makers had clear ideas about the underlying causes of unemployment and how to cure it. Then, as now, there were hopes that it could be halved by the end of the decade.

The main worry relating to unemployment in November 1975 was that a looming "investment gap" would limit job creation. Today, sluggish investment is still the main problem, and the government of Helmut Kohl has been struggling for more than a year to improve the environment for investment with plans to cut the non-wage labour costs of business, reduce taxes and cut bureaucracy.

That jobs are still Bonn's main economic policy concern shows how little has gone right in Germany during the past 25 years. In 1975, the economics ministry calculated that gross investment by trade and industry would have to rise by a real 8 per cent a year in the period to 1980 to cut employment in half to 500,000. That was an ambitious hope, given that investment had fallen on average by 3.8 per cent a year between 1971 and 1975 and had increased by only 7.1 per cent annually in the era of prosperity between the mid-1950s and the first oil crisis in 1973.

Perhaps inevitably, the investment gap was not plugged by 1980. But the accuracy of the ministry's analysis was borne out a decade later, as shown in the accompanying charts.

The left-hand chart shows how industrial employment in western Germany fell by 17 per cent from 7.7m at the end of the 1970s to 6.4m in 1994. It was not a linear decline, however. Industrial employment staged a recovery between 1984 and 1991, when, as the right-hand chart shows, investment in industry also picked up.



There were a number of favourable factors at work in the late 1980s. Globally, they were years of steady economic growth and falling oil prices. In Germany, they were the only years in which Helmut Kohl's government managed to reduce state involvement in the economy (to about 46 per cent of gross domestic product from more than 50 per cent in 1982), creating more room for entrepreneurial activity. Since unification, state spending and transfers have gone back up above 50 per cent of GDP.

The late 1980s also preceded globalisation. But growing economic interdependence was already casting a shadow over the labour market and investment trends.

Between 1977 and 1994, employment in industrial companies employing more than 1,000 fell by a quarter from 3.84m to 2.86m against a drop of only 6.3 per cent to 1.03m from 1.1m in companies employing between 200 and 500. Annual investment by the larger companies grew by only 62 per cent in total compared with 109 per cent for the smaller companies.

The larger companies included an above-average portion of internationally active concerns, which were already moving operations abroad on an increasing scale. The companies employing between 200 and 500 people, which were less quick to cut staff, were typically members of the Mittelstand: the small- to medium-sized companies which have been the backbone of Germany's post-war prosperity and which until recently have invested and prospered at home.

The decline in industrial employment between 1977 and 1994 would have been less worrying had Germany been able to develop a thriving service sector along the lines of Britain and the US. Germany's dependence on manufacturing has added to the problems of unemployment in an increasingly globalised economy. Since 1994, the shake-out of industrial employment has been alarming as companies have invested heavily abroad to exploit foreign markets and escape Germany's high costs.

By the end of last year, industrial employment in western Germany had fallen to 5.8m, down more than 0.5m in two years. The decline has been exacerbated by government policies which until last year encouraged companies to shed labour through early retirement.

It is likely that unemployment will decline in the months ahead as the economy continues its fitful recovery and the effects of the harsh winter unwind. But Chancellor Kohl's goal of halving unemployment by the end of the decade appears as unattainable as the hopes of a similar achievement in the late 1970s.

Germany's jobs crisis and the flashback to conditions 20 years ago tells us much about the process of relative economic decline. It takes an awfully long time for problems and mistakes to impinge on the national and international consciousness and to be corrected.

Many of Germany's present difficulties were apparent in the 1970s. The country has, in fact, been losing ground to more nimble rivals for a generation. Britain's experience suggests that this process has further to go. In the UK, relative economic decline began around 1885. Only an optimist would suggest that it has done more than bottom out in the past 10 years.

CREDIT CARDS • by Lisa Vaughan

Race to capture consumers

A reluctance to use credit is delaying the industry's penetration

Alongside some of New Delhi's main thoroughfares, the giant face of Indian cricket star Sachin Tendulkar grins down from billboards at passing motorists exhorting, "Get yourself Visa power". Within sight of his smiling, oversized eyes is a roadside slum, its dwellings made of plastic sheeting and other scavenged materials.

The slum-dwellers, and indeed most citizens who walk or ride past, cannot read the credit card advertisement. And, even if they could, most would not understand the product or have sufficient financial means to use it.

Is India really ready for credit cards? The leading car companies say that it is. Like many multinational corporations, they see India as a market with vast commercial potential, home to a rapidly growing consumer class estimated at between 100m and 300m people. If they do not get there first, their competitors will.

But the market leaders, Mastercard and Visa, have found that despite the country's six-year-old economic liberalisation programme, India remains a stubborn, challenging market. After investing millions in training, sales distribution networks and infrastructure, they are only just beginning to tap into its potential.

Out of a population of nearly 960m, between 2m-3m Indians have rupee-denominated plastic cards. The number of merchants accepting credit cards is still fewer than 100,000, and in such a vast country that means credit card acceptance is the exception rather than the rule. Though card sales are growing strongly, banks are only just moving into the black on their Indian card business. For the card companies themselves, profits are still years away.

Nevertheless, year-on-year growth in the industry is running at between 35 to 40 per cent, albeit from a low base, the banks estimate. "The market is just opening up," says Vinu George of the Bombay-based Marketing and Research Group (MARG).

In the race to capture the Indian consumer, Mastercard is ahead with 1.4m cardholders, compared with Visa's 700,000. The remainder are split between Diners Club and American Express, which are business charge cards rather than credit cards, and local bank debit cards. Mastercard and Visa closely watch each other but protest they are not fighting for business. Indeed, they are both working towards the same goal: to increase Indians' understanding of credit cards as a convenience product, gain consumer acceptance and broaden the still-tiny user base.

"The market is enormous in India," says Mr Chandra Agnihotri, Visa International's country manager, South Asia. "The whole industry is expanding and each brand is expanding as the industry grows. Mastercard started out here a few years earlier than we did but we are catching up." Mastercard set up a local office in 1987, while Visa opened its doors here two years ago.

Visa estimates the potential credit card market in India at around 10m cardholders by 2000 but there are many hurdles to overcome before this target is reached, banks and card holders agree.

The first challenge is gaining acceptance among Indian consumers, who are traditionally credit averse. While their western counterparts buy first and worry how to pay for it later, most Indians arrange to have money available and only then will they spend it, said Mr I. Natarejan, economist for India's National Council of Applied Economic Research. Most Indians also try to repay a credit card bill immediately to avoid paying interest charges.

Mr Kurt Schneiber, vice-president and business manager for cards forCitibank agrees. "We need to help the consumer recognise the utility and convenience of cards versus cash. They have operated their lives for so long here without them."

Citibank is the leading card issuer in India, with a 30 per cent market share, followed by Standard Chartered Bank with 16 per cent. Local banks combined hold a 30 per cent share. But even with greater consumer awareness, the returns will never be as buoyant as in many other Asian countries because the average price of items Indians buy is low, reflecting relatively low income levels, Mr Schneiber says. The average outstanding credit card balance in the US is $2,000, in Asia $1,500, but in India $500.

The card industry says India's wariness of credit is lessening as the Indian economy opens up and consumer choice multiplies. "In 1987, a tracking study showed the card market was heavily skewed to travel and entertainment users, and was used by the boss alone," said Mr Sonny Sannon, Mastercard's general manager for South Asia.

"These traditional ideas are breaking down. Attitudes to credit have changed dramatically in the past decade, and the multiplicity of choice available has fuelled this," he said.

Young people, with growing exposure to satellite television and Western consumer culture, are on the cutting edge of this change. The typical profile of the new Indian cardholder is male professional or executive, late 20s to mid 30s with a minimum salary of Rs 50,000 to 70,000 a year (£1,000 - £1,200). Capitalising on this Citibank has successfully targeted upwardly mobile Indian university graduates and hopes that they will get hooked for life on the convenience of credit.

But the banks and card companies are alo trying to attract the slightly older, more conservative, consumers with higher income, including women, who can spend more on their cards. Even businessmen in their mid-50s who have a corporate card will not necessarily also take out a personal credit card.

Marketing plays a crucial role, and advertisements showing ordinary Indian people using credit cards in believable everyday situations are proving successful, said Mr. Sannon. At the state-owned Bank of India, Mrs. Kanta Thangiani, assistant general manager for its card product group, says special promotions, such as gift offers have also attracted new customers.

Indian cardholders charge items ranging from restaurant meals to consumer durables, but low ticket items predominate. According to Mr Agnihotri of Visa, defaults are within international standards at around two to three per cent.

India's inadequate infrastructure remains a key obstacle to expansion, especially outside the big cities, industry sources say. The credit card industry's heavy telecommunications and technology requirements cannot be met immediately in a country where power cuts in main urban centres occur daily and where phone conversations can be cut off at any time.

Mastercard expects to launch a multi-million dollar VSAT network in early March to move data to and from its Indian member banks, and its rivals may have to take similar steps to bolster their systems. Mr Sannon expects that the network will enable it to achieve 100 per cent growth in volumes over the next year, make transactions faster and more secure, and give member banks the opportunity to introduce new products such as online ATMs, debit cards and smartcards.

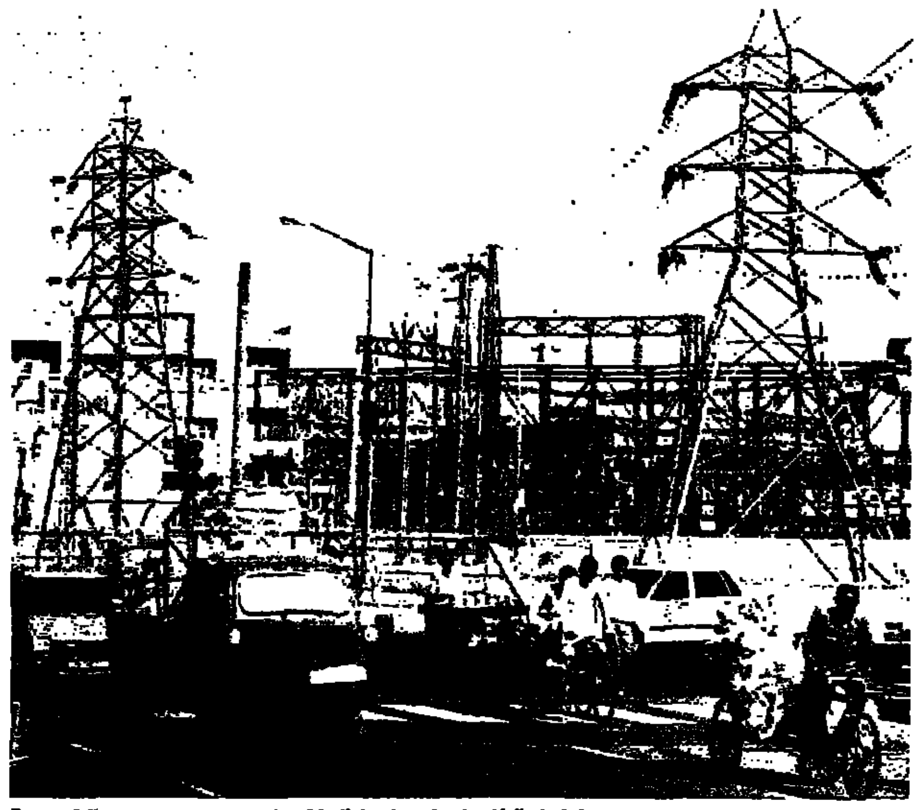
Another barrier is the rupee's lack of convertibility, which means those who take out a credit card can only use it in India and Nepal, said Mr. Agnihotri. Education and training of staff at every level of the card industry is an absolute necessity, but also a time-consuming, costly and labour-intensive process, he added.

It will be some time before the foreign banks can count upon their Indian card business as an important revenue stream but MasterCard expects its Indian operations will begin to show a surplus in five years, according to Mr Sannon.

Balance of payments

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Exports/imports (%)	66.2	86.7	81.2	90.5	84.3	78.4
Current account deficit (US$m)	9,680	1,178	3,526	1,158	2,634	5,434
Current account/GDP[1] (%)	−3.2	−0.4	−1.8	−0.5	−0.9	−1.7
ECB/TC[2] (%)[3]	26.8	30.6	−8.4	6.1	13.6	21.0
NRI deposits/TC (%)	18.3	6.1	47.0	12.0	10.7	37.6
External assistance/TC (%)	26.3	63.9	43.7	19.0	18.9	31.0
External debt (end of period) (US$m)	83,801	85,285	90,023	92,695	99,008	92,199
External debt/GDP (%)[4]	30.4	41.6	39.8	35.9	32.7	28.7
Debt service payments as a % of current receipts	35.3	30.2	28.6	26.9	27.5	25.7

[1] Gross domestic product at current market prices; [2] External commercial borrowings/total capital flows (net); [3] As total capital flows are netted after taking into account some capital outflows, the ratios against items 4, 5 and 6 may in some years add up to more than 100 per cent; [4] Rupee equivalents of balance of payment components are used to arrive at GDP ratios. Source: *Economic survey, government of India*



Power failures are symptomatic of India's chronic shortfalls in infrastructure   Picture: Tony Andrews

A gleam of light

Continued from page I

India's Nehruvian socialist past will be forged slowly and surely, unless accelerated by outright crisis.

The case of the power sector is an example. Progress in reforming the sector to attract the necessary domestic and foreign private funds has been agonisingly slow. Of the eight "fast track" megaprojects approved in the first flush of the sector's delicensing in 1992, only one unit of one of them has been commissioned, two more projects are under construction, but the rest remain under negotiation – bogged down in complex bureaucratic procedures and reviews at both central and state government level.

Meanwhile, India's power shortages worsen. Even Delhi, the cossetted national capital, suffered long power blackouts this winter – portending far graver shortages in the coming furnace of summer. As a first step, says Mr Rajendra Pachauri, director of the independent Tata Energy Research Institute, the existing, delayed projects must hasten to completion. "We need the take-off of four or five major projects in the next six months, otherwise four or five years down the road we are in serious trouble," he says.

The next, and more fundamental step, however, is somehow to accelerate the reform of India's loss-making state electricity boards, which in 1994-95 lost a combined total of Rs63bn. The SEBs, the primary purchaser of privately generated power, are politically controlled by state governments. Their losses stem directly from the historic unwillingness of state governments to charge farmers anything like remunerative rates for the power they use.

As the SEBs' losses worsen and blackouts lengthen in many states, a crawling process of reform is finally getting under way, encouraged by the increasing tendency of multilateral lenders such as the World Bank and the Asian Development Bank to target lending at state governments deemed willing and able to undertake the unbundling and commercialisation of state power boards. But it is a patchy process. The poor state of Orissa has begun a near wholesale reform of its SEB, backed by a $350m World Bank loan. States such as Gujarat, Haryana and Rajasthan are cautiously preparing similar plans. But at the same time, the first statement of Punjab's newly-elected chief minister was that he would guarantee farmers free electricity. Kerala state also recently waived power charges for farmers.

Thus in power, and elsewhere, many have concluded that the bulk of future reforms will occur when the politically unpalatable is forced by the economically unsustainable. "We're talking about the formation of what is essentially a new economic ideology in India," says an Indian investment banker with an international bank in Delhi. "It's perhaps like the period before Mrs Thatcher changed thinking in Britain. It's a question of a crystallisation of new thinking. But it will take time to evolve."

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Abbey National Treasury Gtd FRN 1999 $13.74
Allied Signal $0.26
Anglo Irish Bank FRN 1998 £162.44
Anheuser-Busch $0.24
Benson 0.5p
Border Television 2.7p
Chevron $0.54
Dun & Bradstreet $0.22
Electronic Data Systems $0.15
Fuji Bank Int Fin Perp Sb Gtd FRN $15867.20
General Motors $0.50
Houston Inds $0.375
Hydro-Quebec 10⅜% Db Ser HU Mar 2001 C$106.25
Do 12⅝% Db Ser HI Mar 2015 £1262.50
IBM $0.35
Investors Capital Tst Inc Ann Rest/Vtg 1.35p
Do Units 1.35p
Japan Fin for Municipal Enterprises 6⅜% Gtd Bd 2004 £63.75
Jurys Hotel IR2.6p
Kitz 6⅛% Bd 2000 Y650000.0
Lilly (Eli) $0.36
Mazda Motor 5.45% Bd 2000 Y545000.0
Mobil $1.06
National Australia Bank Sb Var Rate Nts 2000 £162.74
Nat West Bank Var rate Cap Nts 2009 £169.52
New Zealand Inv Tst 4.35p
Quality Care Homes 3.63p
Royal & Sun Alliance Insurance 10⅝% Nts 1997 £106.25
SMC 3.05% Bd 1998 Y305000.0
Safeway 6⅛% Bd 2000 £81.25
Smith (David S) 2.6p
State Bank of New South Wales Sb FRN 2004 A$81.0
Texaco $0.85
Treasury 5½% 2008/12 £2.75
United Technologies $0.31
Warner-Lambert $0.38

■ **TOMORROW**

Ellis & Everard 3.3p
Kubota FRN 1997 Y20468.0
Residential Mortgage Sec 1 Class A Mtg Bckd FRN 2034 £158.07
Do Class M £164.10
Do Class B £226.78
Tenneco $0.30
Toyo Ink 7¼% Bd 1998 Y725000.0
Treasury Fltg Rate 1999 £1.5103

■ **WEDNESDAY MARCH 12**

Bankamerica $0.61

■ **THURSDAY MARCH 13**

Anglo Irish Bank 9⅜% Und Sb Exch Nts £987.50
British Gas Int Fin 10⅛% Gtd Bd 1998 C$101.25
Hydro-Quebec 12¾% Ln 2015 £6.375
London Scottish Bank 2.1p
Marubeni Int Fin 6½% Ser A Dual Currency Yen/$ Bd 1997 Y650000.0
Pfizer $0.34

■ **FRIDAY MARCH 14**

Atlantic Richfield $1.375
Brunswick $0.125
CSX $0.26
Crabtree 5.25p
Daejan 16p
Dana $0.25
Edinburgh Inv Tst 3.65% Cm Pf 1.825p
Gracechurch Mortgage Fin (No 2) Class A Mtg Bckd FRN 2028 £991.34
Do Class B £1896.35
Do (No 3) Class A Mtg Bckd FRN 2029 £1080.76
Do Class B £1858.96
Inco $0.10
Pacer Infotec $0.03
Prism Leisure 1.73p
Prospect 1 Asset Bckd FRN 2003 £1647.04
Seagram $0.165
Southvaal R4.80
Unidare Units IR12.26p
Vaal Reefs Expln R10.15
Western Deep Levels R3.60
Willoughby's Cons 1.5p
Do Pf 1.5p
Young & Co's Brewery 9⅛% Db 2018 £4.75

■ **SATURDAY MARCH 15**

Morrison (Wm) Supermarkets 5¼% Cm Rd Pf 2.625p
Newcastle Bldg Scty 12⅝%
Perm Int Brg £63.125
Pennzoil $0.25
Quebec 12¼% Ln 2020 £6.125
TRW $0.31
Whirlpool $0.34

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Treatt, Bedford Lodge Hotel, Bury Road, Newmarket, 12.00

BOARD MEETINGS:
Finals:
British Vita
Bruntcliffe Aggregates
Calderburn
Candover Invs
CMG
Fairey Group
IMI
Intrum Justitia
Laporte
Persimmon
Persona Group
Premier Oil
Psion
Reylon Group
Sanderson Bramall Motor
Spirax-Sarco Engineering
Treats Group
Interims:
Ardagh
Cash Converters
Domestic & General
Kleinwort Development Fund
Polypipe

■ **TOMORROW**

COMPANY MEETINGS:
Finsbury Technology Tst, Wax Chandlers' Hall, Gutter Lane, Gresham Street, E.C., 12.00
Shani Group, The Marriot Hotel, 10, Grosvenor Square, W, 12.00

BOARD MEETINGS:
Finals:
BBA Group
BPP Hldgs
Cowie Group
Cussins Property Group
Expamet Intl
General Cable
Harrisons & Crosfield
Independent Insurance Group
Kalon Group
Merchants Tst
M&G Income Inv Tst
Orange
Peek
Pentland Group
Robert Walters
Wellington Hldgs
Yorkshire T.V.
Zeneca
Interims:
Murray Ventures
Pochin's
Redrow Group
Sheffield United

■ **WEDNESDAY MARCH 12**

COMPANY MEETINGS:
London Scottish Bank, St James' Club, Charlotte Street, Manchester, 12.00

BOARD MEETINGS:
Finals:
Foreign & Colonial Enterprise
Heywood Williams
Instem
Leslie Wise Group
Lionheart
Malaya Group
Midland Independent Newspapers
Minorco
Reed Intl
Rentokil Initial
Schroders
Telewest
TI Group
Interims:
Cortecs Intl
Druid Group

■ **THURSDAY MARCH 13**

COMPANY MEETINGS:
Gartmore British Income & Growth Tst, Fenchurch Exchange, 8, Fenchurch Place, E.C., 12.00
Lookers, Lancashire Cricket Club, Talbot Road, Manchester, 12.00
Sperati (C.A.) (The Special Agency), 54, Westcombe Hill, Greenwich, S.E., 12.00
Stanelco, Oliver House, 27, East Barnett Road, New Barnett, Herts, 10.00

BOARD MEETINGS:
Finals:
Coats Viyella
Cordiant
Cortworth
Coutts Consulting Group
Enterprise Oil
Graham Group
Invesco
Jeyes Group
Jupiter Intl Green
Legal & General
MAID
Mirror Group
Molins
Nelson Hurst
Perry Group
Reckitt & Colman
Tilbury Douglas
United Biscuits
Woodchester Inv Tst
Interims:
Sirdar

■ **FRIDAY MARCH 14**

BOARD MEETINGS:
Finals:
Anglo Pacific
Aquarius Group
Bilton
Mithras Inv Tst
Vitec Hldgs
United News & Media
Wood (Arthur) & Son

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

MANAGEMENT

The UK cut down to size

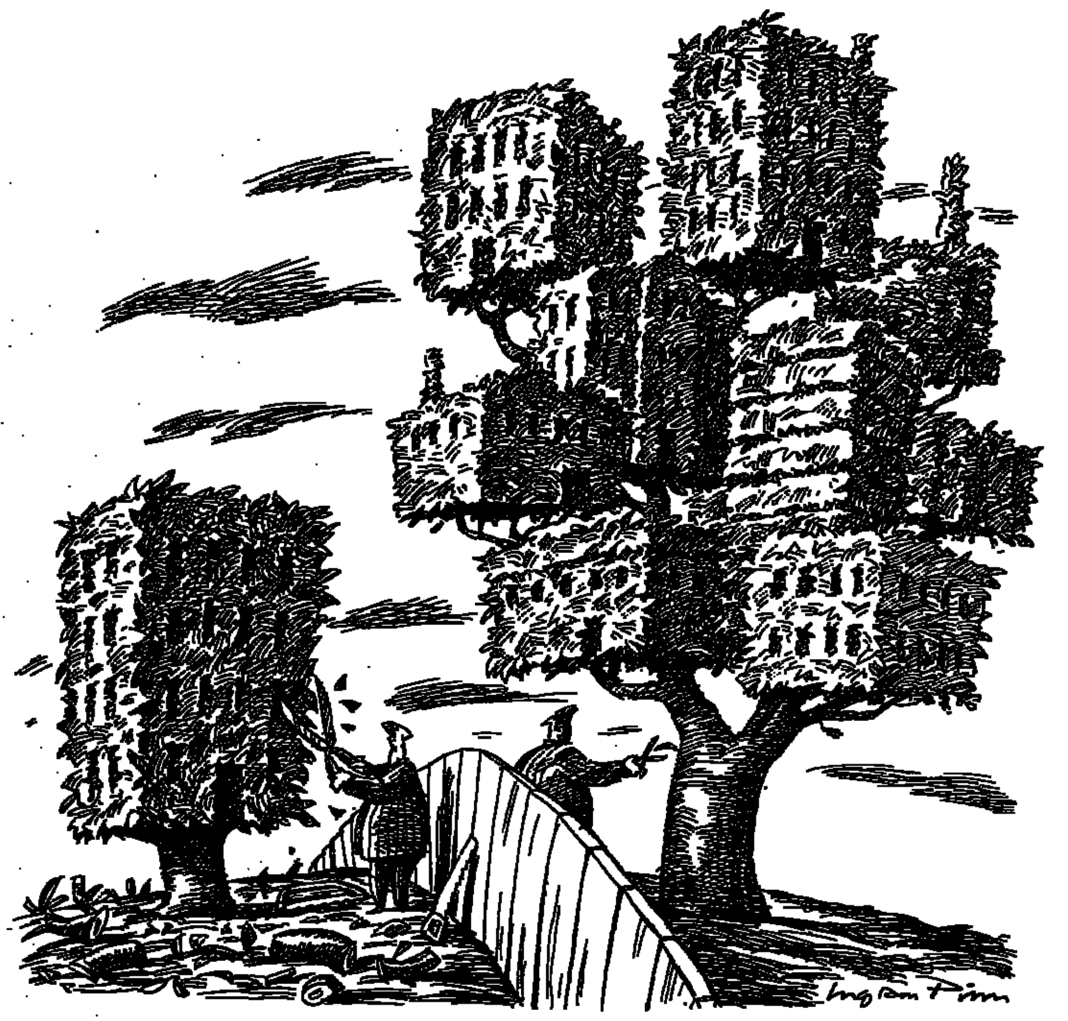
Restructuring has hit harder than in Germany, say **Ansgar Richter** and **Geoffrey Owen**

Over the past decade a wave of corporate restructuring has swept through European industry. In response to a more demanding capital market and more intense global competition, a radical reappraisal of strategy and structure has been under way.

General trends have been towards refocusing – reducing the number of businesses a company competes in, and simplification of internal organisation – reducing the size of the head office and cutting out layers of management.

But the extent of these changes has varied considerably between countries. In particular, there are marked differences in the way British and German companies have reacted to external pressures. Downsizing, refocusing and delayering have been far more drastic and extensive in the former than in the latter.

To investigate the extent of these differences, and the possible reasons for them, the Centre for Economic Performance at the London School of Economics, in association with the Financial Times, has been studying the restructuring activities which have been taking place in the largest British and German companies since 1986.



Top managers from 116 British and German companies answered a questionnaire which, taken together with data from published sources, provides a unique insight into the extent and nature of corporate change in the two countries.

Over the past 10 years more than three-quarters of large British companies have reduced the extent of their diversification. More than half have demerged or divested unwanted businesses. Some 80 per cent of the sample have made at least occasional use of outsourcing.

In contrast, big German companies have been more reluctant to pursue refocusing strategies. This may be because fewer of them diversified as extensively as British companies in the 1960s and 1970s. But this is only part of the story. There are a number of conglomerate giants, such as Veba and VIAG in Germany, which show no inclination to narrow their range of activities. Despite criticism from British and American financial analysts, many diversified German companies seem more confident than their British counterparts in their ability to manage a diverse spread of businesses.

Part of Britain's de-diversification has taken the form of management buy-outs. Some 60 per cent of large companies have sold parts of their business, often support functions, to the management. Typically, the British respondents to the survey have had between three and four buy-outs over the past decade, with up to 17 in exceptional cases.

Compared to this, the German market for these deals has only started to develop since reunification. Only 20 per cent of German companies report buy-outs, and the maximum number per company is just three.

In line with the stress on refocusing, the vast majority of British acquisitions are now horizontal in character, with companies adding to businesses they are already in. While only 16 per cent of the British sample have pursued unrelated acquisitions, this compares with 32 per cent of German companies. The latter are also much more prone to integrate vertically – backwards by acquiring suppliers, or forward by buying distributors or retailers. Hardly any British companies have followed this strategy.

There is also a difference between the two countries in the importance of international acquisitions. Almost 50 per cent of all British acquisition strategies are directed primarily at overseas targets, and a further 20 per cent to a balanced mix between domestic and international targets. This compares with a much lower proportion (31 per cent) of German companies with primarily international acquisition strategies, but a higher proportion (36 per cent) with both German and foreign targets. These trends are undoubtedly influenced by the reunification of Germany.

In contrast, there are some ways in which British and German companies have been behaving very similarly. For example, joint ventures and strategic alliances have been strongly favoured by around 47 per cent of companies in both countries.

When we turned to internal organisation, we found that in both countries there is a trend towards greater decentralisation.

More than half of the British and 42 per cent of German companies report that the discretion of line managers over the use of financial resources has increased. In only about 12 per cent of cases in both countries has line managers' autonomy decreased, with no change in the remaining cases.

The survey also provides evidence of the extent of "delayering". Ten years ago the main operating businesses of British companies had an average of seven layers of management, and as many as 14 layers in one extreme case. In late 1996, average figures were down by one third to fewer than five managerial tiers.

Again, the Anglo-German comparison provides interesting insights. German companies have slashed their hierarchies as well, but from a much lower starting point of only five to six layers in 1986. In 1996, hierarchical structures in British and German companies look much more similar in 1996 than 10 years earlier. But the pruning of head office staff has been much more ruthless in Britain. Leaving aside a few exceptional cases, staff counts at British headquarters are now only 60 per cent of what they were in 1986.

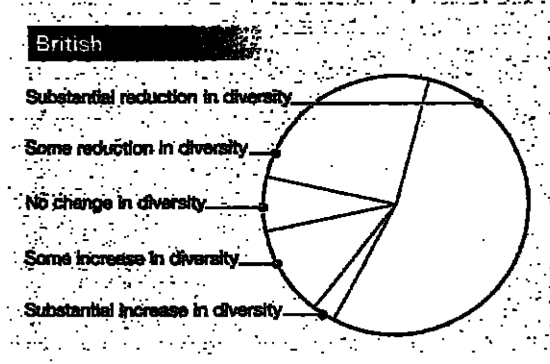
Overall, our survey shows that, at least up to 1996, the German approach to corporate restructuring has been much more cautious than Britain's. Is this because German companies are too set in their ways, with too many vested interests obstructing desirable changes? Will the Germans be forced in due course to follow in the British path?

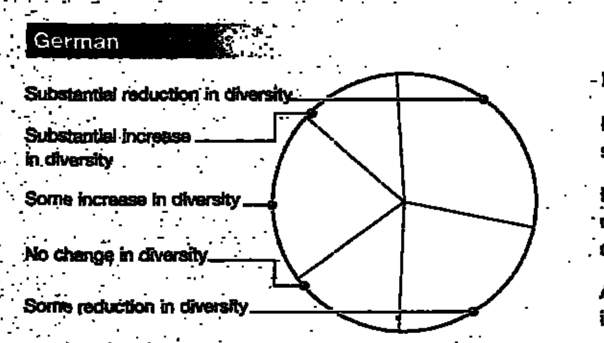
There is some recent evidence of a more radical approach to corporate structure, often involving the hiving-off of unwanted businesses and a new relationship between the head office and the operating businesses: Daimler-Benz and Hoechst are well-known examples.

But whether these developments point to a greater convergence between the two countries remains uncertain. Despite the current difficulties of the German economy, the values of stability and consensus which have served German industry so well in the past will not be discarded quickly. National approaches to corporate restructuring reflect each country's history and domestic institutions, and these deep-seated differences are likely to persist.

The authors are at the Centre for Economic Performance, a research centre at the London School of Economics and Political Science. A full report will be available shortly from the Centre for Economic Performance, LSE, Houghton Street, London WC2A 2AE.

Refocusing: British and German companies





The restucturing of British companies

	1986	1996
Median head office size	175	100
Median proportion of head office staff who are managers	27.8%	37.2%
Median number of heads of operating businesses who report directly to the head office	8.0	5.0
Average layers of management in the main operating businesses	7.0	4.7

Fergus Wilde

Roderic Hill (left) and Stephen Chipperfield: billings of £30m

PARTNERS

Hill Murray

Roderic Hill, 52, and Alistair Murray, 62, founded the Hill Murray advertising agency in 1984. A year later Stephen Chipperfield, 49, became a partner. Their clients include Sun Life, Coutts and Commercial Union. The Hill Murray group includes three other companies which specialise in financial PR, design and marketing. Their billings last year were £30m.

Stephen: "Roddy has a beautifully civilised veneer which hides a very strong personality. He's urbane and patrician which comes from his public school background. I'm definitely more streetwise.

He's a team person which is vital in this business, someone who's genuinely interested in the welfare of the staff. I'm perceived as a driven bastard, the Mr Nasty. When I wind people up Roddy's the one who placates them and says: 'Never mind, it's all right really.'

I've seen too many agencies disappear over the years so you have to be tough. Advertising is a high-adrenalin pursuit, which suits my disposition. Roddy has a tamer role as chairman, and although he might think I have more fun, I also have more aggravation.

In his early days, at Streets, financial advertising was run by an old boy network and no one bothered about brand managing, which is something companies like Procter & Gamble had been doing for more than 40 years. In those days, marketing staff of large companies were actuaries; now they're hugely important and sit on the board of institutions.

The financial services sector is now the second largest category of advertising, something neither of us could have imagined 10 years ago. The industry is littered with partners who have ended up at war. It attracts prima donnas and flamboyant types who think it would be great to work together until they find their egos won't fit in the same room. Roddy lacks ego and I've got too much, which is one of the reasons we've been successful together."

Roderic: "Steve came out of retirement to join the firm. He'd run his own agency, Bastables, for many years and after he sold out, at the age of 30, he decided to sail around the world then write novels.

He was starting to run out of money when we launched, so it wasn't hard to suck him back into the industry. Before he became a partner he worked as our creative director from home. We used to fax him a brief, he'd then go off riding his horse for two hours and come back with a brilliant idea.

I think he finds it frustrating that he's now managing director and no longer creative director. He has to stand back and not interfere, which is hard for someone as talented as him. He loves the theatre of presentation, the pitching to clients and situations where he has to think on his feet.

When we first took on the Fidelity account he shocked them all by unfolding a 48-sheet poster to launch their new ad campaign. It may not sound dramatic, but the room was full of financiers, so to them this was very innovative and exciting.

Steve is somebody who is prepared to take a commercial view, unlike a lot of advertising people who get carried away with the business itself. We've always run the company under tight financial control. When you start out with three people in two rooms, as we did, that frugality never leaves you, no matter how large you become."

Fiona Lafferty

Straight to the top with the stroke of a pen

Lucy Kellaway

Ann Iverson, CEO of Laura Ashley, never touches a piece of paper twice. Lord Hanson gets to work before everyone else and never goes home until his in-tray is empty. Bob Ayling of British Airways says no. Martin Sorrell of WPP plans out the coming year clearly in advance.

These handy little hints on how to beat the clock are revealed in this month's Director magazine. No doubt they have helped the giants of industry to get where they are, but to those of us who really need help, these techniques are hard to follow. An alternative suggestion on how to stay on top of your work comes from David Abbott of advertising agency Abbott Mead Vickers: surround yourself with people who are better than you.

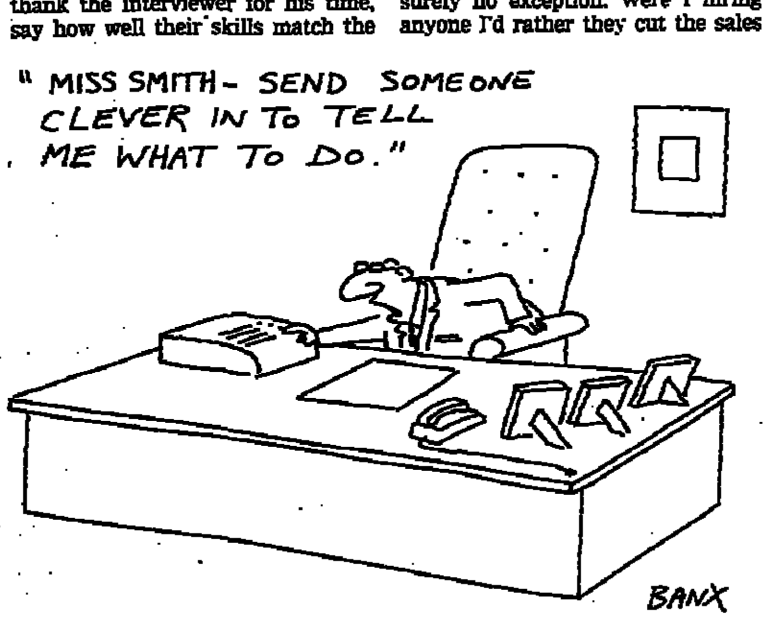
Well said, David. What a charming view of business you have. The only trouble with it is that if the people surrounding the boss are so much better than he is, then why is he still in the hot seat? I suspect that Abbott is talking trendy nonsense – unless he simply means that you should always hire and promote the best people available. It is hard to disagree with that.

A more practical tip comes from John Jarvis, chairman of Jarvis Hotels. He answers all mail by scribbling answers on the original letter and sending it straight back. This is a stroke of genius. If we all did this, we could become budding Ann Iversons in no time. Of course, some people might not take kindly to having their letters returned covered in scribbles. But it would save so much time (and paper) that if enough people like Jarvis persisted in doing it, the idea might just catch on.

My main achievement last week was working out how to get on to the Internet. This was particularly impressive as I had never used a mouse before, and felt at first as if I was on that 1970s quiz show, *The Golden Shot*. However, I have been well rewarded for my efforts by being able to visit the Chivas Regal Career Toolbox. (What on earth is a booze company doing offering management and career advice?) There I found all sorts of handy hints, including another insight into the changing role of the letter. The toolbox recommends that job seekers should follow up interviews with a thank you letter, in which they thank the interviewer for his time, say how well their skills match the job, return to any areas missed at the interview, tell the interviewer how they adored the company, make a few thoughtful observations, and then "season the letter with something personal or funny".

I know that in these days when jobs are no longer jobs for life we are meant to be marketing ourselves all the time. But these letters (which are not really thank you letters at all) are the equivalent of the most pushy, unsubtle selling.

Most people do not like being sold to in this way, and interviewers are surely no exception. Were I hiring anyone I'd rather they cut the sales patter, kept their jokes to themselves and waited politely to be told whether they had got the job.



An interesting finding in the latest research on the over-researched subject of leadership: leaders with flaws do better. According to John Hunt of London Business School, successful leaders can have serious shortcomings so long as they admit to them. That way, staff see them as human beings.

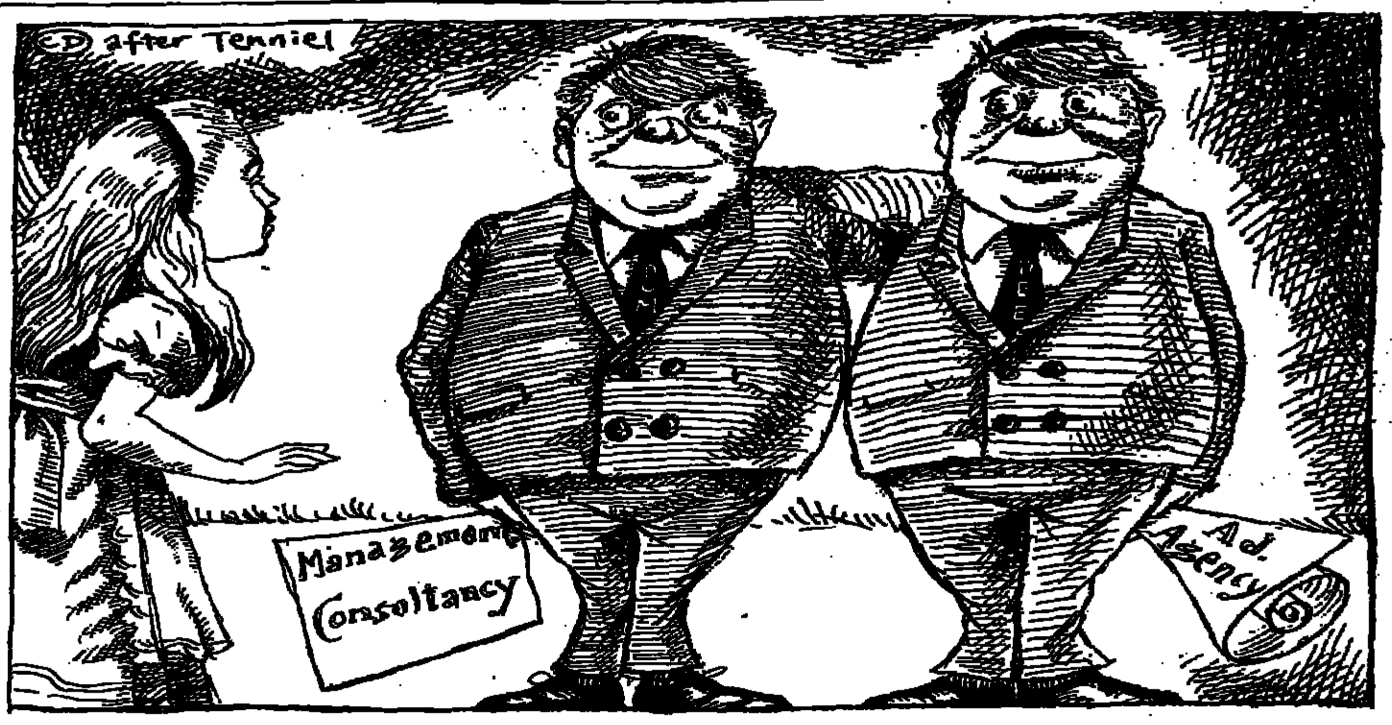
You might think this was pretty obvious, but it represents an advance on most of the stuff written about leaders in which they are represented as perfect, superhuman beings, visionaries who can motivate, communicate etc etc. The bosses themselves have bought this traditional view and mostly feel it would be weak to admit that they never listen/are badly organised/narrow in their outlook. But I expect there is another reason why they do not own up to their failings. It has never occured to them that they have any.

Last night I dreamt I was interviewing an elderly American management guru. (It would be nice if my fantasy life were more exciting, but there you are.) In my dream this guru was telling me about his theory – which appeared to be the exact opposite of the version expounded in his book. When I pointed this out, he said proudly that he had misquoted himself to hundreds of CEOs.

He was so convincing that I tried it out: How to Lose Friends, and be Ignored by People. In Search of Mediocrity. Waiting for the Molehill to Move. Only the Complacent Survive. The Bulging Raincoat. It sounds fresh, intriguing. CEOs might well fall for it.

Advertising agencies are under pressure. Management consultancies are sniping at them, to gain a greater share of the "advice market". And a growing number of advertisers are feeling restless. **Alison Smith** and **Meg Carter** report

Turf war: agencies vs consultancies



Sam Hill spends most of his working week in an advertising agency and the rest in a management consultancy, personifying the overlap between the two sorts of adviser, *writes Alison Smith*.

He was head-hunted from his job as chief marketing officer at consultants Booz-Allen & Hamilton and last month was appointed head of worldwide strategic planning and business development at ad group D'Arcy Masius Benton & Bowles, a post he takes on full-time at the start of next month.

"It's quite a bold move on their part, and on mine," says Hill. "Does adding a different strategic perspective make us more powerful in the market?"

Many of the largest advertising and marketing services groups are similarly assessing how to become more powerful in the advice market, so as not to be left merely executing the strategy put forward by consultants.

"Advertising agencies have to move up the value chain," says Martin Sorrell, chief executive of WPP, the world's largest marketing services group. He adds, however, that he does not see advertising agencies as well-placed to do so.

Though neither side appears to see the turf war as a direct conflict, they are clearly aware of a contest. Changes in both clients and their advisers seem to have led to ad agencies being somewhat squeezed out of their role in advising on brand management and strategy.

One factor Sorrell identifies is the increasing value that financial markets attach to companies that concentrate on organic growth rather than expansion by acquisition, making successful marketing of their existing business more critical.

Tim Breene, a partner at Andersen Consulting, says companies have realised how precious successful brands are, and how difficult it is to create new ones. "Brand management has become a top management concern again, and the natural partner is a strategic consultant".

Though they should be well-placed to offer advice on brands, agencies can lose out because clients are sometimes suspicious of their true intentions, whereas consultants have a perceived neutrality, according to Fernan Montero, chairman of Young & Rubicam Europe. "Agencies can be seen to have a vested interest in promoting the notion of promoting the brand," he says.

Hill sees changes in advisers themselves. He says that agencies conceded some analytical ground about 20 years ago when they deliberately emphasised not only their marketing expertise but also their creative skills, and consultants moved on to that ground.

McKinsey & Company is only one example of how consultants have expanded their role. Anthony Freeling says McKinsey always worked on marketing and brand strategy in areas such as the packaged goods industry, but now gives that advice across a broader range of sectors, including retailing, financial services and healthcare products.

"Now we have a worldwide group of 20-30 marketing research specialists who enable us to get a consumer perspective – both qualitative and quantitative – on our work," he says. "More and more work requires a good insight into the consumer."

Insight into the consumer is the central area of contention between the two types of advisers. Ad agencies say they sometimes do not get enough credit for the knowledge and expertise that lies behind any campaign they present to clients. "When agencies make presentations, they include the strategy element for free," says Sorrell.

That is not a view shared generally by consultants. They say their strategy advice is strongly analytical and so labour intensive that no organisation could afford to let clients have it for nothing. "Whatever agencies are giving away, they are not giving away the same strategy that consultants are selling," says Hill.

Agencies also say that consultants' approach to strategy is hampered because they lack an instinctive understanding of the consumer. Consultants say they can provide market research and consumer information themselves or by orchestrating advice from other specialists.

The role of lead adviser is not one advertising executives are in a good position to play. "I don't think ad agencies would be good at fulfilling the turnkey role, because they have a different culture," says Breene.

Resolving the conflict between ad agencies and consultants is unlikely to mean a return to acquisition strategies of the late 1980s when, for example, Saatchi & Saatchi moved aggressively into management consultancy.

Instead, apart from obvious moves towards hiring people from consultancies, agencies are looking at how to capitalise on their expertise without being drawn into areas for which they are not suited.

One approach, adopted by Grey International within the past year, is to set up a separate unit to give strategic brand advice. Simon Ratcliffe, managing partner of Grey Brand Futures, says this enables an ad agency to exploit its brand and consumer expertise effectively.

"Agencies are not trying to compete by providing a number-crunching exercise. Grey Brand Futures is specifically looking at strategic brand development – where consumers will be in the next five to 10 years. That is where our expertise is."

For their part, some consultants talk about a symbiotic rather than competitive relationship with ad agencies, but there is no reason to suppose they intend to step back from the range of advice they currently give clients.

The turf war looks set to intensify before there is any prospect of a truce.

Breakdowns are back in fashion

Relationships between a product and its consumers and between an advertiser and its advertising agency are at the heart of all successful advertising campaigns, *writes Meg Carter*.

But a weakening of the client-agency relationship is posing a threat to the long-term health of some brands, a number of senior agency executives now fear.

In New York recently Domino's Pizza announced it was putting its \$75m (£46m) advertising account up for review. The account had been held by Grey Advertising for six years, during which Domino's enjoyed record sales.

The agency-client relationship was particularly close. Grey worked closely with Domino's on new product development and remained a constant ally during a period of rapid staff turnover in Domino's marketing department.

But the appointment of a new marketing chief, Cheryl Bachelder, quickly led to an announcement of an agency review. "The best time to advance the ball is when you are winning," she told an interviewer. "In this competitive environment, we can never rest on our laurels."

Invited to re-pitch for the account, Grey refused. "We've never before had a client who, at the peak of success, decided to review," Grey Worldwide's president, Ed Meyer, explains. "In a case like this, we've done what we were paid for, so why compete? My view is we're just not compatible any more."

It is an advertiser's right to review its options. But other agencies have expressed concern at recent, unexpected breakdowns and advertiser-agency realignments. A growing number of such developments are occuring in the hope of short-term gain, not the long-term interests of brands, agencies claim.

Proof of the growing number of accounts on the move comes from the UK's Advertising Agency Register, which offers confidential advice to advertisers on agencies' credentials. AAR chairman Lyndy Payne says: "There is undoubtedly a feel-good factor rubbing off on companies, which are now more willing to review their agencies."

Advertisers are more confident, she says. "Last year, far less business moved agency than in the previous year, which was a particularly busy one. 1997 has got off to a fast start and we expect it to exceed the rate of change in 1995." Although renewed confidence sounds like good news, some agencies fear it conceals a decline in clients' management standards.

"Agencies seldom get fired for doing bad advertising," says Toby Hoare, chairman and managing director of Young & Rubicam, which recently resigned the Bausch & Lomb Europe account. "Sometimes a client will say an agency is 'stale'. I would argue clients are often far too hasty to change direction rather than build on what was there before."

Andrew Cracknell, chairman and creative director of London-based Ammirati Puris Lintas, says: "Everyone is being held more accountable. There is less room for excuses and forgiveness."

"Senior marketing executives are spending less time in their posts," says Hoare. "A recent survey suggests the average length of tenure for a marketing director today is between 18 and 19 months." That means marketing directors want to make their mark fast before moving on.

"Short-termism is driven by people's need for speed. They'll probably only be in the job two or three years, so want results today," says David Barker, chairman and creative director at Barker & Ralston.

A new marketing director will not find it easy to change a product immediately. "However, they can instigate an agency review on Day 1 to announce: 'I've arrived'. We live in an age of quick assessments and quick solutions for spectacular results."

Budgetary pressures are another factor, says Deborah Morrison, director of membership services at the Incorporated Society of British Advertisers (ISBA), a trade body. "Growing demands for accountability have placed greater emphasis on justifying pounds spent," she says. "More purchasing departments are becoming involved in negotiations between agency and client, yet many are more used to buying paper clips."

BUSINESS EDUCATION

Della Bradshaw assesses the latest European accreditation process

Credit rating

Europe's business schools have opted for an exclusive accreditation process to recognise the cream of the continent's schools.

With only 15 of Europe's most prestigious business schools due to receive the accolade in the next two years, the process could cause a huge political row among those which are not accepted in the process – especially in the UK where there are well over 100 business schools.

Nevertheless, schools have insisted on a "high-quality label", not one diluted by the inclusion of all schools in Europe, says Bernadette Conraths, director-general of EFMD, the European Foundation for Management Development, the business schools' trade body.

The European quality label will be issued under the auspices of the EFMD, which has set up a separate agency to oversee the process. This Equis unit – Equis stands for European quality improvement system – will accredit the whole school, not just the MBA courses.

Over the next five years 30 to 35 of Europe's 200 or so schools could be accredited.

The target figure of 15 schools to be accredited over the next two years is based on the capacity of the system rather than being an indicator of the quality of the schools, points out Conraths. However, 17 schools have already signed up as pioneers and they will be the first on the accreditation list.

The 17 accreditation candidates include Insead in France, IMD in Switzerland and London Business School in the UK, widely recognised as Europe's three most high-powered schools. Also on the list from the UK is Ashridge, but schools such as Cranfield, Manchester Business School and Warwick, often regarded as among the elite, are absent.

Seven of the 17 schools are French and three are Spanish.

Conraths believes UK schools are unwilling to sign up for further audits, even though they are in favour of the accreditation system, because they are already the most heavily audited in Europe. As well as the UK business school accreditation system, they have government research and teaching audits as part of the country's higher education system.

The move to a single European system is a break away from EFMD's previous position – the Brussels-based organisation had planned simply to ratify the accreditation carried out by national organisations in each country. But the shift has been made under pressure from the deans of Europe's most influential schools.

"Schools have said they want a clearly-defined European-level process which is separate from the national-level accreditation," according to Conraths.

A further pressure has been moves by the American accreditation body, the AACSB, to export its accreditation criteria to Europe. However, the UK's accreditation body, Amba (the association of MBAs) is not altogether happy with the process. Director General Mike Jones believes accreditation should help consumers choose the most appropriate school, something which accreditation of 15 to 30 schools across Europe will not achieve. Says Jones: "Accreditation shouldn't be to stroke the egos of the schools. It should be to help consumers."

Management training takes to the runway

Airport managers are now getting their own MBA courses, says Michael Skapinker

Few masters of business administration students spend their time discussing airport security or the management of check-in counters. These are some of the topics, however, to be covered on a new MBA course set up by BAA, the UK airports group, and the University of Surrey.

Sir John Egan, BAA's chief executive, says the programme is part of the group's ambition to be acknowledged as the best-run airports company in the world. The group, whose airports include London's Heathrow and Gatwick, already runs airports in the US. It also has ambitions to run airports in Italy, Australia and South Africa.

Sir John says: "To become the best airport operator in the world, we must have the best people in the industry and equip them to compete effectively."

Students on the BAA course will discuss their material with their teachers on the Internet, which will also be used to deliver course materials. Students will be able, through the Internet, to gain access to material in the British Library. In addition, students on the two-year part-time course will have to attend residential weekends.

BAA is also offering an 18-month part-time Diploma in Management Studies and a one-year Certificate in Management Studies. These courses will also be conducted over the Internet and supplemented by residential weekends.

BAA will initially be restricting the courses to its own staff. Within two years, however, it hopes to offer the courses to anyone in the aviation industry. The outsiders will pay for their courses. BAA staff will be asked to make a small contribution to the cost of their courses, which will reimbursed if they complete them successfully.

BAA says it wants to put 50 of its staff through the MBA course over the next five years. It wants another 50 to do the DMS and a further 100 the CMS. BAA says it wants to see employees from terminal duty managers to firefighters and security staff doing the courses.

The courses will be based on continuous assessment rather than formal examinations. Students will do work-based assignments as well as project work. In addition the MBA students will be expected to produce a dissertation.

Travel News · Roger Bray

Pristine Palace

The Palace Hotel in Madrid, whose glittering guest list has stretched from film star Buster Keaton to the King of Spain, is about to undergo a big refurbishment. The nine-month operation will start with the facade, move on to the renovation of 274 rooms – including banqueting and meeting rooms – and finish with the installation of new technology such as audio-visual facilities. Operated by ITT Sheraton, the Palace opened in 1912. It stands close to the Prado gallery and is one of the city's two *grande dame* hotels. The other is its rival, the Ritz, which is almost opposite.

Free fax

Rail travellers between London, the East Midlands and South Yorkshire will soon be able to fax without charge from the train. The move follows a deal between Midland Mainline, which operates services between London's St Pancras station and cities including Leicester, Sheffield and Nottingham, and Canon, the machines' manufacturer. The fax machines are expected to be installed during the summer. If there is sufficient demand, photocopiers may be added later.

No longer dry

Qatar Airways, previously a dry airline, is to start serving alcoholic drinks in first and business class. The date of the change has yet to be fixed, but it is certain to be made by the time the airline shifts its London operation from Gatwick to Heathrow on March 31. The move, to Heathrow's Terminal Three, will be seen as a challenge to rivals Emirates and Gulf Air. The airline will offer four round-trips to Doha a week until May 4. After that, the service will be daily. The same aircraft will continue to Abu Dhabi. Flights will be by Airbus A300-600 with a relatively generous 55-inch seat pitch (the gap between the back of your seat and the one in front) in business class.

Airport upgrade

Egypt is to build three new airports - at El Alamein, west of Alexandria, Dahab (south Sinai) and Mersa Alam on the Red Sea. The government's national aviation plan also envisages big improvements at six international airports, including Sharm El Sheikh, Luxor and Aswan, as well as the development of three domestic ones, among them Port Said, to bring them up to the standards required to handle international flights.

Service switch

A reminder that British Airways will switch its Latin American services from Heathrow to Gatwick from next Monday. Flights to Bogota, Buenos Aires, Caracas, Mexico City, Rio de Janeiro, São Paulo and Santiago (Chile) will depart from Gatwick's North Terminal. BA hopes that the move will kill two birds with one stone, creating elbow room at Heathrow and stimulating extra traffic on the routes.

By the beach

Monte Carlo is to get a new convention and exhibition centre for the new millennium. The centre is being built close to Larvotto Beach, most of it below sea level. Due to open in 1999, it will have a theatre-style main hall seating up to 1,900, and 25 other meeting rooms. There will be a banqueting room for 1,000, 7,000 sq m of exhibition space, three restaurants and a business centre.

Likely weather in the leading business centres

Treats for those who are going places

Incentive travel has undergone big developments and its importance to companies is growing, says Roger Bray

Passengers aboard the cruise liner Silver Cloud could hardly believe their eyes. Dinner-jacketed waiters carrying champagne on silver salvers appeared to be walking on water.

The stunt was requested by a client organising an incentive trip to the Caribbean. He asked the line to ensure that its ship sailed close to a sandbank. The waiters sneaked off in a small boat and stood only an inch or two above sea level.

The fun goes on, but the incentive travel business, which is reckoned to be worth £600m ($968m) in the UK alone, has matured. The prospect of a breather in an Irish castle or the Greek islands is no longer seen simply as a bucolic prize for exceeding sales targets, but as an integral part of maintaining the loyalty and morale of workforces.

Companies arranging such trips are far more streetwise than they were in the early days. Certainly companies such as Silversea, which operates the Silver Cloud and can charter whole ships to incentive groups, would never repeat the mistake that one of its rivals made.

The story of the line that sent post-cruise greetings cards to the homes of male passengers, saying how delighted it had been to host them – and their wives – on board has become part of the industry's folklore.

"Incentive travel is no longer just a matter of rewarding people who have done well," says Sarah Webster, executive director of the UK-based Incentive Travel and Meetings Association.

"The message is much more sophisticated than it was in the 1980s. Now it has much more to do with keeping your staff happy. On the one hand the job for life is a thing of the past and a lot of people are on short-term contracts. But on the other, the realisation is growing that high staff turnover is expensive and that you could be losing out if you don't keep good people."

The association runs an annual awards scheme to encourage creative thinking. Among recent winners was "Top Gun 95", a scheme to stimulate the UK sales team of Compaq, the US computer company. Prizes ranged from leather flying jackets to a trip to Houston, with a flight in a fighter.

Shaun Casey, director of travel operations at The Travel Organisation, reckons there are about 100 companies in the UK organising incentives and that the number of employees and sales agents taking advantage has grown by 20 per cent in the past year.

"Because the buyer is becoming so much more sophisticated, there is additional pressure on the incentive house to be professional. We spend weeks and weeks with clients making sure we understand the delegate profile.

"Based on that profile we have just suggested trekking in Nepal to a financial services company, for example. It's a long-term client and the participants will be high-flying sales people. Previously we arranged horse riding for them in Arizona." Some destinations, he says, appeal simply because they are relatively novel.

It is vital that everything works smoothly. While incentive groups are sometimes confronted with fake emergencies – like a group in the Netherlands, who were asked to continue their journey on bicycles of various vintages after their coach "broke down" – organisers are keen to minimise the risk of any real emergencies.

"We spend quite a lot of time researching destinations. You can't afford to be let down by infrastructure – to get stuck with buses which have no air conditioning or break down, for example. Recently we have been looking at Vietnam and Burma, where Orient Express has a boat on the Irrawaddy river.

"We have already done a trip for a computer software firm to Borneo, where there's quite a lot of soft adventure, such as white water rafting and staying in a local village."

The average long-haul spend per person from the UK is about £2,000, he says. For trips to Europe it is probably £800 to £1,000.

It follows that few destinations want to miss out on such lucrative business. East Europe has moved smartly into the reckoning. Incentive groups in Prague are taken on vintage trams, plied with champagne and serenaded by accordionists. In St Petersburg it is possible to hire the Yusupov Palace, where Rasputin met his death by poisoning, for dinners and balls.

Later this year in Turkey, members of Sony's Spanish salesforce will be driven a short distance from Istanbul to board a steam train back to the city's Sirkeci station, terminus of the original Orient Express.

The station, says Sadik Caglar, assistant general manager of Tantur, the organising travel company, will look "like a movie set", with porters in period dress carrying old leather luggage. There will be red carpets from train to waiting lounge, where the group will enjoy an evening of tango.

The choice is enormous. From the ruins of Delphi to the Vatican, and from moonlit Arabian barbecues in Dubai to treasure hunts by boat in Venice.

French-owned Concorde Hotels has just announced a tie-up with the *Le Mans* racing circuit to offer groups of 40 to 60 people their own "24 hours challenge". They will not be expected to spend long hours at the wheel, but there will be a chance to drive a Formula Renault car round circuit. And prizes at the end are not just for demon driving, but for wine tasting too.

Scandinavian link-up

Danish airline Maersk is teaming up with Finland's Finnair to challenge SAS on Scandinavia's busiest trunk route, between Copenhagen and Stockholm. From April 28 the two airlines will each operate four flights on weekdays under a code-sharing arrangement. There will three services on Saturdays and four on Sundays.

The two airlines, which hope to win a quarter of all traffic on the route within a year, say they are offering generously discounted introductory deals. Passengers with hand baggage only will be able to check in just 15 minutes before departure.

● From yesterday, Rome's Via Appia stretch of the ancient Appian Way is being closed to motor traffic on Sundays. The Via Appia, lined with aristocratic Roman tombs and early Christian catacombs, has long been a favourite with visitors. But heavy traffic and lack of pavements have made it difficult to explore. The motor traffic ban on Sundays will link the historic section of the Appian Way with the Via dei Fori Imperiali, near the Colosseum, producing a near-nine-mile pedestrian and cycling zone.

● Marchers in Pretoria protesting against crime in South Africa got a first-hand view of the problem on Saturday when an armed robbery occurred 60 yards away. The march was one of several in big cities organised by the Congress of South African Trade Unions.

● Visitors to Lisbon are discovering that the most fashionable places after dark are the city's African nightclubs, which started to enjoy a boom three years ago when Portugal's economy picked up. Two dozen African nightclubs are scattered across Lisbon.

"At one table you see a poor man, at another the jet set, and at another some intellectuals. You get everyone here. They all come for the beat," says nightclub minder and singer Andre Cabaco, from Mozambique.

The African nightclubs are drug-free, unlike other nightspots in Lisbon where the problem is rife, night-club workers and residents say. Entry charges range from $9 to $18 per head.

● Egypt and Australia will sign agreements today to increase air links and trade between the two countries, the Australian embassy in Cairo said. The first agreement will allow the national carriers, EgyptAir and Qantas, to operate in each other's country. They already fly between the two countries, but the agreement will formalise services.

MARKETING / ADVERTISING / MEDIA

All eyes on Hollick's first hurdle

Post-merger results from United are imminent, reports Christopher Price

There were few plaudits for strategic logic when the UK's United News & Media merged with MAI just over a year ago.

The joining of Lord Stevens' Express newspaper group and Lord Hollick's television and financial services company was seen by most observers as a defensive move amid a consolidating media industry.

But there have been some dramatic changes at the new United in the past 12 months, and on Friday investors will get their first chance to judge the developments taking place when the company unveils its first full annual results.

The figures will be complicated by several exceptional items, ranging from an estimated £32m ($52m) of provisions for a shake-up of the national newspaper business to at least £50m set aside for the start-up of Channel 5, in which United has a 29 per cent stake.

With gains from disposals offsetting some of the costs, pre-tax profits of about £285m are likely to fall to £235m, compared to £258m last year on a pro-forma basis.

The array of one-off costs and additions reflects the wholesale shake-up of the merged group. This has not been confined to the restructuring of the business, but has also involved a fundamental shake-up of the management.

The most significant event was the decision by Lord Stevens, only 10 months after the merger was announced, to relinquish his executive duties and become part-time chairman at the next annual meeting. For many observers, the decision underlined the suspicion that the merger was a tacit takeover and that the real power lay with Hollick, the chief executive.

Formerly more than half the executive board was from the old United. Now only three survive. Hollick has recruited David Arculus from Emap, the media and exhibitions group, as his deputy, while Stephen Grabena, former managing director of the Telegraph group, has come in to head the newspaper operations.

United is divided into five business operations: broadcasting, business services, financial services and US and consumer publishing. The executive director of each division sits on the 16-strong board.

While the head of financial services and the finance director report to Hollick, Arculus, who joins in two weeks' time, will be responsible for the rest of the group.

Hollick, who has a reputation as a shrewd deal-maker and a stringent manager of costs, is also keen to oversee an organisation which encourages responsibility and the generation of ideas. "You have to let business flourish, to become entrepreneurial. These are highly competitive markets that we operate in and we do not simply need managers, we need risk-takers. Part of the challenge of the merger has been to change the culture and reinvigorate the management. The old style of management was hierarchical, whereas I believe in a flat structure in which everyone participates."

While Hollick will concentrate on strategy, it will be left to Arculus to manage the bulk of the businesses. "My strengths are in building brands and backing creative teams," he says.

Arculus was instrumental in building Emap's exhibitions group and will have the opportunity of overseeing the integration of the Blenheim exhibitions group, bought for £592m. It has been merged with United's existing trade magazine and exhibitions business which operates out of the US under the Miller Freeman umbrella.

Analysts estimate business services, incorporating exhibitions and market research, will contribute some 45 per cent of operating profits to 1997 results. It is United's biggest revenue generator and most dynamic market, with analysts forecasting double-figure profit growth during the next three years.

This is in sharp contrast to United's newspaper business, which has been hurt by high newsprint costs, competitive advertising markets and declining circulation. Both the Daily and Sunday Express have suffered sharp falls in sales in recent years, while the Daily Star is No 3 in the downmarket tabloid market. Hollick describes it as "the sternest challenge" in turning the business around.

Some £10m is being invested in the titles, which have been given a facelift and moved to a seven-day operation. Cost savings of £15m a year are promised within three years.

The newspapers have also become less overt in their support of the Conservative party. "More than half our readers do not even vote Conservative, so we are selling them short by being the mouthpiece of Conservative Central Office," says Hollick.

He stops short of suggesting that the Express might do the unthinkable and back Tony Blair, the Labour leader and a close ally of the peer, at the forthcoming election. "The political line of the Express is down to the editor," he says. Grabena puts it more succinctly: "The Express may be more politically open-minded, but it would be a big leap of faith for it to say 'Don't vote Conservative'."

Tough challenges face United in television, where growth in the advertising market has been pedestrian and the jockeying for position in advance of the proliferation of digital channels is intensifying.

United holds two UK television franchises, Meridian and Anglia, and stakes in HTV, Yorkshire TyneTees, ITN and the SIS satellite channel as well as Channel 5. It is also understood to be talking to International CableTel about joining the DTN consortium bidding to operate three of the six digital multiplexes (bundles of channels) being offered by the UK authorities.

Channel 5 is unlikely to be profitable until after 2000, but Hollick believes its potential to be "considerable".

Roger Laughton, head of the broadcasting division, identifies developing new niche channels, particularly in pay-TV, and beefing up United's production capacity – it now produces Formula One motor racing coverage for the ITV network – as the twin aims of the group's television strategy.

Despite the changes at United and the attempts to carve a coherent strategy, investors have been lukewarm. Since the merger, United's shares have underperformed the FTSE All-Share Index and the media sector by 25 and 30 per cent respectively. Hollick and his team will be hoping that this week's results go some way to vindicating their strategy.

Fergus Wilkie

Lord Hollick: "The political line of the Express is down to the editor"

Tim Jackson

Quest ends for idiot-proof map

Last week, on Wednesday, I managed to drive from Berkeley to San Francisco without getting lost. Since my sense of direction remains as inept as ever, the credit for this triumph must go to a company called MapQuest.

If you type two US addresses into the company's web site – *www.mapquest.com* – it instantly displays a printable map of the route between the two, together with detailed street directions and a note of the total mileage and predicted journey time. You can even choose whether you want the quickest route or the shortest.

MapQuest is a subsidiary of a Pennsylvania company called GeoSystems Global that specialises in geographic database software. Started by Barry Glick, a scientist with a PhD in spatial analysis and geographic information systems, GeoSystems has been selling digital mapping systems to companies for five years.

It provides intelligent maps to CD-Rom publishers, and to companies offering operator-assisted services to users of cellphones. One client is the American Automobile Association, which sends out customised route maps by post to members who need to make a long journey.

In 1995, Glick and his colleagues began to realise that the Internet gave them an opportunity to bring their technology to a wider audience. The AAA system, useful though it is, doesn't help people who are already late for an appointment when they realise they need a map.

To bring the company's technology to the web, GeoSystems set up MapQuest as a new subsidiary in a new office in Denver. A dozen people spent 10 months designing its web interface. Denver may seem an odd choice. Perry Evans, MapQuest's president, explains that it combined proximity to the west coast with low land costs and pleasant living conditions.

Like many Net businesses, MapQuest aims to make money in two ways. One is by selling advertisements to companies that want to reach the users of its mapping service. The going rate is $0.02 per impression, meaning per page viewed. The company boasts about 100,000 daily users of its web site, generating more than 1m hits.

Some advertisers pay double the price for geographical targeting. For instance, a hotel can choose to advertise only to people who have asked for a route map that takes them within 10 miles of its front door. The selling point of this advertising is that most other kinds of geographical advertising on the Net depend on the customer's willingness to type in an address.

The company's other revenue source is from selling its mapping service to other website owners. If you're a real estate agent, a retail chain, a travel agency or fast-food business, you can repackage MapQuest maps as your own. Fees are based on the number of maps dished up, and range from $2,500 to $30,000 a year. What makes this still more attractive is that webmasters can add the mapping facility to their sites in less than an hour.

Instead of storing the database on their own computer, which increases costs and slows down web page access, customers simply insert a hypertext link from their site to MapQuest. That delivers the map direct to the end user, but in the corporate colours and fonts chosen by the web site.

MapQuest is an impressive example of how the profit motive is bringing together a wide range of useful tools, making it possible to set up a site that gives information of real value to customers swiftly. But this is only the beginning. Today, the company adds new "segment maps", to supplement the direction-giving service with detailed maps showing each twist and turn on each route.

In the next few weeks it will add street-level maps for a number of European countries (though not, unfortunately, the route-finding service). In the long term, Evans has two ambitions. One is to become the "leading delivery vehicle" for printed maps. The MapQuest web site already has 1m registered users.

Evans wants to extend this to customised maps for travel. If you are going to a conference in New York, for example, you will be able to name the hotel where you propose to stay, and ask MapQuest to print you a personalised map showing the hotel, the conference venue, banks offering foreign exchange, local sights and sushi bars within a 10-minute walk of your hotel.

Evans's other ambition is for MapQuest to exploit new revenue sources, either by getting users to pay directly or by persuading hotels and airlines to pay a commission when the company brings them business. For the moment, MapQuest offers a useful and convenient service that is free. Use it while you still can.

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Stripped and stranded Channel 5 aims to attack

Raymond Snoddy discovers "modern mainstream" broadcasting

David Elstein, chief executive of the UK's new Channel 5 television channel, was particularly pleased that the English rugby team were pinned into their own half for long periods in their recent game against France.

Not that he wished the English team ill. His pleasure came from the fact that as England struggled, the perimeter advertisements – "Give Me 5" – for Channel 5, which is launched on March 30, filled the screen.

Channel 5 may have been a long time in coming – the Independent Television Commission rejected the sole applicant in 1992 – but there is now very high awareness that a new, nearly-national UK television channel is about to be launched.

Eighty-five per cent of the population are aware of the new channel. And, as a bonus stemming from the requirement to retune 10m video recorders which could suffer interference from the Channel 5 signal, awareness in retuning areas is as high as 96 per cent.

But once all the video recorders have been retuned and the promotional campaigns run, what will Channel 5 look like? What programmes will it show? What chance will it have in a world of digital television, where several hundred channels could soon be on offer?

In terms of programming budgets, Channel 5 will lie somewhere between cable and satellite channels and normal terrestrial channels. The £110m ($179m) a year it will have to spend on programmes is three times the amount available to Sky One, the leading satellite channel, which has a 5 per cent viewing share in cable and satellite homes.

But Channel 5's £110m a year is tiny compared to the £800m available to ITV this year for nationally networked programmes alone. To make as much impact as possible, Elstein, a former director of programmes at Rupert Murdoch's British Sky Broadcasting, has adapted the "stripped and stranded" schedule of the cable and satellite world.

A "stripped" show runs on consecutive days at the same time each day. A "stranded" show rotates with other similar shows in the same time slot each day. The aim is to ensure that viewers know where every programme is. "The important thing is to imprint our strip schedule in people's minds," says Elstein, who is aiming for a 5 per cent share of total viewing at the end of Channel 5's first year on air.

At 9pm each evening, for example, Channel 5 will show a feature film: a scheduling device that may compete with the BBC's *Nine O'Clock News* and *The News at Ten* on ITV. There will also be news on the hour every hour, and a half-hour bulletin. Each weekday evening at 6.30 Channel 5 will screen its own soap opera, *Family Affairs*.

Elstein has managed to drive down unit costs and hopes to get "a far better bang per buck than any other channel" by ordering long runs of programmes.

The channel has been designed to appeal to a wide audience but its profile is younger and more up-market than the UK average. Dawn Airey, the Channel 5 programme director, says it will offer "modern mainstream television". This she defines as "intelligent, stylish, popular culture".

"Modern mainstream" will be noticeably different from the fare offered by the UK's existing terrestrial channels, and is likely to amount to a third force in UK television. On one side, Airey told the Royal Television Society last month, there would be ITV, still seen by many as television's equivalent of Butlin's holiday camps, and the worthiness of BBC 1. On the other: the often contrived outrageousness of Channel 4 and the post-modern trendiness of BBC 2.

When it launches, Channel 5 hopes it will be able to reach 60 to 65 per cent of the UK population and increase that to about 80 per cent by September.

Elstein believes that its investors – United News & Media; Pearson, the media group that owns the Financial Times; CLT-Ufa, a German-owned broadcaster; and Warburg Pincus, a US investment bank – could do extremely well.

It took Channel 4 10 years to get to a 10 per cent viewing share. Elstein believes Channel 5 could get there much quicker. It may still be a while before Channel 5 is able to broadcast England's rugby game against France from Twickenham rather than merely advertise itself on the hoardings. But the new channel has at least secured the rights to soccer's England vs Poland World Cup qualifying tie on May 31.

Nasdaq woos UK's investors

Alison Smith explains the US stock market's television debut

The washing powders, cars and cat foods that feature so prominently in UK mainstream television commercials have been joined by an unlikely fellow advertiser: Nasdaq, the screen-based US stock market.

Its campaign runs to the end of March, primarily around news programmes in London and south-east England. It highlights two of Nasdaq's biggest stocks – Microsoft and Intel – and encourages investors to log on to the exchange's website for free news and information about US-quoted companies.

It is the first time advertisements for any stock market have run on British television (the London stock exchange prefers to focus on specialist financial newspapers and magazines), and the first time Nasdaq has advertised outside the US.

"The UK was an obvious place because the level of individual investment is higher than elsewhere in Europe, and there is no language barrier," says Ellen Taverner, Nasdaq's vice-president for international marketing.

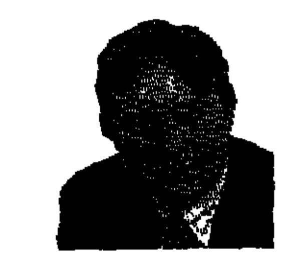
"We have a corporate commitment to educating the investor, and we are trying to communicate that we have a website with institutional investor quality information."

Initial reaction suggests the campaign has heightened viewer awareness – as similar campaigns in the US since 1991 have done. There has already been a slight increase in UK traffic on the Nasdaq website.

Using the mass-market medium of television, as Nasdaq has done, is a sign of its increasing importance in targeting consumers selectively, says Dominic Stead, director of marketing at Mediapolis, which handled the media buying.

While a 30-second national ad in the middle of *Coronation Street*, a popular soap opera, would cost about £90,000 ($147,000) and reach a broad audience, Nasdaq is able to focus on reaching business managers and executives for about £25,000 with a centre-break slot in *News at Ten* in London. "This selectivity makes television advertising feasible for new advertisers, because they are able to target more closely and the costs and wastage are lower," reckons Stead.

COMMENT & ANALYSIS



Philip Stephens

Danger: landslide

Tony Blair has set his face against loose talk of a crushing Labour victory, but the general election is his to lose

Two recent newspaper articles infuriated Tony Blair. One said he had already selected the paintings from the national collection which would soon adorn the walls of 10 Downing Street. The other gave a list of the New Labour sympathisers lining up to join Gordon Brown's Treasury.

The reports, trivial in themselves, owed much to journalistic imagination. But it was the subliminal message rather than the errors of fact which annoyed Mr Blair. Here was an opposition measuring for the curtains before a single vote had been cast. The misplaced triumphalism of the 1992 campaign taught Mr Blair there are few things more dangerous in politics than hubris.

The timing too was awkward. Two opinion polls showed Labour's lead over the Conservatives widening still further. ICM reported in the Guardian that Mr Blair's party was 18 points ahead. In the Telegraph, Gallup said the gap was 26 points. Put that in perspective. Eight weeks before the 1992 election the two parties were neck and neck.

Alongside the Conservatives' crushing defeat in the Wirral by-election, the figures underlined a unique trend. At this stage in the electoral cycle, the gap between the two parties would normally have narrowed sharply. But every survey still gives Labour a lead of more than 15 points. It is unprecedented. The best achieved by Clement Attlee in the months before his landslide victory in 1945 was 13 per cent.

A landslide: a dream which has begun to touch reality. Yet to utter the thought is to usurp the will of the people. The phrase is thus forbidden in Mr Blair's entourage. But it slipped inadvertently from the lips of Robin Cook, the shadow foreign secretary. And, for all the leader's warnings against arrogant presumption, colleagues find it harder by the day to resist the temptation.

The first-name chats with Whitehall's senior mandarins and the confidential contacts with the security service about personal protection stoke the fires of confidence. Even humble hoteliers regard the election outcome as a foregone conclusion. The management of the Grand in Brighton has announced it will close for police checks two days before Labour arrives for its October conference. They do not take such trouble for opposition parties.

The Conservatives' fortunes turn from bad to awful. Most of the wounds are self-inflicted. Cabinet scuffles over a single currency, loutish behaviour by backbench MPs and – the latest – the defection of Sir George Gardiner to Sir James Goldsmith's Referendum party: all are piled atop the insufferable complacency over food safety shown by Douglas Hogg, the agriculture minister.

Mr Hogg's return to the public eye, hobbling on crutches to support a broken foot, is an all-too-painful metaphor for John Major's crippled administration. It is probably too late to sack him, but Mr Hogg's unrepentant refusal to admit responsibility is as lethal a virus as any found in the nation's food chain.

> The misplaced triumphalism of the 1992 campaign taught Mr Blair there are few things more dangerous in politics than hubris

Nor is there anything immediately obvious in the electoral arithmetic to explain Mr Blair's coyness. At 17 per cent, the swing to Labour in the Wirral by-election was four times that needed to put him in Downing Street.

It is the same with his poll lead. Fair enough, the pollsters hardly earned our trust by getting it wrong in 1992. But the gap today could halve, then halve again, and Labour would still win.

So why is Mr Blair so agitated? The bigger the majority, after all, the easier it would be for him to deliver on his promises, most obviously those on constitutional reform and Europe. The theory peddled by some observers – that a narrow victory would somehow make it easier for Mr Blair to manage his party in government – is daft. Margaret Thatcher never lamented her large majorities.

Mr Blair, though, is superstitious. Complacency risks breeding mistakes and dissent. He has also taken a harder look than most at the arithmetic. This other side to the story appears in the written warning sent to colleagues at the weekend.

Against the message of the opinion polls, the 4 per cent swing required for an overall Labour majority of one in the new parliament may seem less than daunting. The same could be said of the 6 per cent swing which would give a majority of 50. But translate those percentages into seats, and Labour needs to take between 55 and 80 seats from the Conservatives.

That means winning in Gloucester and Battersea, Gravesham and Peterborough. Start thinking of a landslide (a majority, say, of more than 100) and Mr Blair has to capture Medway and Norfolk North West. These are places where Toryism comes with the tap water.

Mr Blair has circulated more figures to sober up his troops. The biggest swing to Labour since 1945, he recalls, was the 3.2 per cent won by Harold Wilson in 1964. The highest number of seats gained was 59 – in the same year. And a swing of 5.2 per cent to Mrs Thatcher at the turning of the political tide in 1979 was a post-war record for any party.

It is these figures which give Mr Major comfort. He draws further solace from the undergrowth of the polls. The voters may mistrust the Tories, but they show little zeal for radical change. That Labour is doing so well is testimony to its safety-first politics. The nation may want fresh faces; it is not at all keen on brand new policies.

Mr Blair knows this well. And in coming weeks the Conservatives will spend many millions in a last effort to nourish the voters' fears. The more certain the prospect of a Labour victory, the more powerful will be the searchlight shone into the darker corners of its prospectus.

Yet the general election is now Labour's to lose. It will take an avalanche to eliminate its present lead. And, if recent events are a reliable guide, we have entered territory where anything is possible, including a landslide on the scale of those in 1906 and in 1945.

Most of the time the British are cautious folk. They have a soft spot for the underdog, and they occasionally tell fibs to opinion pollsters. So Mr Blair is right to believe that loose talk about landslides may well be a self-destructing prophecy. But just as Mr Major dreams of a spectacular Tory recovery, Mr Blair would hardly be human if, in the odd idle moment, he did not muse on the prospect of governing with a majority of 100.

LETTERS TO THE EDITOR

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Delayed debt relief will cost Uganda dearly

From Mr J. S. Mayanja-Nkangi

Sir, Your correspondent Robert Chote noted on February 26 ("Uganda can expect debt relief next year") that under the Highly Indebted Poor Countries' debt initiative, relief for Uganda may be not given until April 1998 or even April 1999.

The government of Uganda has become increasingly frustrated by the prospect of delay in multilateral debt relief. Under the initiative, such relief is supposed to be given after a six-year record of adjustment has been established.

At the time of the International Monetary Fund/World Bank annual meetings last October there was a widespread view that as Uganda already had an eight-year record, debt relief should be given as early as possible, with the options of spring or summer 1997 explicitly discussed. Any delay is not merely an issue of timing – a completion point in April 1998, rather than April 1997, would mean that the debt relief to be provided would be cut by half.

The government of Uganda is absolutely committed to implementing free primary education for four children per family, which means that it is likely that the number of children in primary education this year will double.

It would be both ironic and unfortunate if the amount of support to be provided under the debt initiative were to be delayed and reduced just as Uganda undertakes this major initiative in the social sector.

Some governments have expressed concerns that debt relief may be misused. Let me make three points.

First, the government of Uganda has undertaken reforms in the past because we believe it is in the best interest of our country. IMF and World Bank support has helped to ease the adjustment process, but the conditions linked to their support have mirrored, not driven, government policies.

Second, the government of Uganda is deeply committed to poverty eradication. We have pursued a clear policy of protecting expenditures on health, education etc from any budget cuts in the event of revenue shortfalls. We would have no difficulty in setting out these commitments explicitly as part of any "social conditionalities" linked to the multilateral debt relief.

Third, the government of Uganda has always been open about the budget process and expenditures. We have provided donors on request with full records. Again, we would have no objection to making a formal commitment to continuing such an approach.

J.S. Mayanja-Nkangi
Minister of Finance
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Kampala, Uganda

UK must continue industrial development aid

From Dr John Humphrey, Dr Hubert Schmitz, Prof Sir Hans Singer, Prof John Toye and Prof Adrian Wood.

Sir, Malcolm Rifkind has signalled the UK government's intention to withdraw financial support for the United Nations Industrial Development Organisation after 1997, subject to a further review.

As one justification he cites inefficiencies within Unido. However, since 1993 Unido has, in his own words, "implemented a wide-ranging reform process which has resulted in staff numbers being significantly reduced, the organisation streamlined, and programmes refocused".

His second justification for the proposed withdrawal of support is that the needs of industrial development "should preferably be seen in the context of a particular country's development strategy and integrated into its other development activities".

We agree with the need to integrate industrial development with wider developmental concerns. However, in our experience, unless industrial development is specifically targeted for support, developing countries are unlikely to succeed in the restructuring and technological upgrading necessary for their integration into global markets.

These problems are particularly acute for sub-Saharan Africa, where industry has declined in recent years. Unido's contribution in this respect is distinctive and valuable, since industry is rarely a focus of aid programmes, bilateral or multilateral. We therefore strongly urge our government to reconsider its decision to withdraw from Unido.

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Explosive results of ignoring 'millennium bomb' warnings

From Mr Leonard W. J. Stanley.

Sir, I have been following with interest the debate concerning the "millennium bomb", also known as the "Y2K" problem.

I am not in a position to comment as to why Lord Alexander, my chairman, should suggest auditors do not certify company accounts until 1998 but I am able to comment that he, along with all members of the National Westminster board, have recognised for some time the need for preventative action and the dire consequences of not effecting all year 2000 changes in good time.

Yes, it is expected to cost the NatWest group some £100m, but as a number of readers are now starting to appreciate, for many organisations it really is a question of investing for survival.

For my part, I am confident that I am working within an organisation which will be millennium compliant (and hence will survive) because we had the foresight and willingness to address *all* the issues, plan for change and then spend the money.

In conclusion, it is the responsibility of every managing director/chairman in every company to take action now (if they have not already done so) and if the cost and inconvenience appear off-putting, think how inconvenient it will be to be out of business in what is now less than three years.

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Management · **Tony Jackson**

Intellectual revolution

The 88-year-old guru Peter Drucker sees sweeping changes in the coming decades

Mary Evans Picture Library

Only Gutenberg had an effect comparable to today's information age, says Drucker (right)

At a conference in London last week, an audience of chief executives and other luminaries was lectured on the information revolution and what to do about it. One of its star speakers – by satellite – was the 88-year-old management sage Peter Drucker.

The starting point of the conference was familiar: that the changes wrought by the personal computer are comparable to the industrial revolution. This has become such a cliché that it is tempting to challenge it. The Industrial Revolution – the substitution of machinery for human and animal power – was a change so profound that parts of the world have yet to catch up with it. Are personal computers really that fundamental?

Drucker's response to that question, in conversation with the Financial Times, was forthright. There is no real comparison with the Industrial Revolution, he said. What is happening now is far more profound.

His argument is that the comparison is mistaken. The real analogy is with what he terms "the first information revolution" – Gutenberg's invention of moveable type, and the advent of the printed book.

In Drucker's view, the first information revolution – like the second – differed from the Industrial Revolution in two crucial respects. First, it spread much faster. Second, it immediately changed not just methods of production, but what was produced.

"The Industrial Revolution," he says, "was mechanically very fast and socially very slow. It was not until the railways came in the 1840s that ordinary people became aware of change at all. When I was born [in Vienna] in 1909, the revolution had just started to cross the threshold of the home. People had gas and kerosene lamps, but electric light arrived only around 1900."

And, he points out, it was not until after the end of the Napoleonic wars – 50 years after the first introduction of textile machinery – that the revolution moved outside the UK. Contrast, he says, the first information revolution.

"Printing took just 50 years to infiltrate the entire west. Gutenberg's invention was in 1444 [in fact, around 1455]. By 1485, the number of printed books was six to 10 times as great as the number of manuscripts. It was that fast. By the end of the century, the hand-written manuscript was as obsolete as the adding machine on which I worked as a young banker in 1930."

As for his second point: "The Industrial Revolution did not replace a single commodity. It made existing commodities available and plentiful, and it made them as like the hand-made version as possible. Factory-made shoes were so close to hand-made ones that only the expert could tell the difference.

"The steam ship was as like the sailing ship as possible: it plied the same routes. If you read Conrad's novels, you find the examinations for seamanship were the same in 1880 as in 1820. The first new product of the Industrial Revolution was the railroad."

Not so with the information revolution: "50 years before it, literature meant the Bible and the Greek and Roman classics. Not long after, it meant Shakespeare and Cervantes."

Or take the huge growth in printed maps. "Without those, you could not have had the age of discovery.

"If you read 15th century documents, you find what really upset contemporaries was the effect on people's lives. It gave people an incentive to read. They could afford texts which previously only a great nobleman could afford. An illuminated manuscript of the Bible cost three years' rent on a fair-sized estate. Then the printed Bible came along, costing a week's wages."

This was a process in which Drucker's own family had a hand. His ancestors, he says, started producing Bibles for the mass market in Amsterdam in 1570. His name, in fact, is German for printer.

When it comes to the second information revolution and its likely effects, Drucker is no less forthright. Its chief impact, he says, will be not on economics or business but on education. "In 30 to 40 years, education will look wholly different, not only in delivery but in content."

Second, the nation state cannot survive. "My 16-year-old grandson is on the Internet with budding scientists and mathematicians all over the world, and he considers them his fraternity. That is non-national. You do not need the nation state anymore."

Third, the traditional city will disappear. "That was a child of the 19th century, when people began to move their homes. The 20th century has made ideas mobile."

What about the effects on corporations? "There are three developments, he says, working in parallel. "The first is a huge merger wave, largely among industries which are well past their peak, such as commercial banking, which won't be here as we have known it in 30 or 40 years.

"Second, there is a much bigger but less visible wave of joint ventures, alliances and informal agreements. They do not require government or shareholder approval, they mostly do not require money, and you in the Financial Times mostly do not report them because you do not hear about them."

Third, he says, a vast army of small entrepreneurs, from the US to Japan, is being fostered by access to worldwide information. He cites a tiny Californian company making padlocks which you open by talking to them, or a husband and wife team acting as design consultants for the world's aircraft makers.

The Drucker world view need not be accepted uncritically. His view of history is open to argument; and as a futurist, he has lived long enough to see some of his more sweeping predictions falsified.

But his main point remains persuasive. Comparisons between the advent of the personal computer and the industrial Revolution are not so much overblown as inexact.

"The Industrial Revolution," he concludes, "was wholly in the material sphere. The changes in the information revolution are intellectual."

ARTS

OPENINGS

PARIS

[illegible] on March 20 by a choral concert featuring the Mass op. 8. An exhibition opening at the Musée Picasso on Wednesday examines the way Picasso used photographs as visual inspiration for his paintings. It covers the period from 1900 to 1928.

ZURICH

The latest exhibition at the Kunsthaus, Caprice as an artistic principle, is a study of the portrayal of fun, fantasy and fictitious elements in painting from Callot and Castiglione to Tiepolo and Goya. Opening on Friday, it includes more than 120 paintings and 150 drawings.

NEW YORK

The Glory of Byzantium, opening tomorrow at the Metropolitan Museum, promises to be one of the highlights of this year's art calendar. It focuses on the second golden age of Byzantine civilisation, from the mid-ninth to the mid-13th century, when Byzantium set a standard of imperial elegance for the Islamic East and Latin West. The exhibition features more than 350 works of art, including mosaics, frescoes, stone carvings, gold and silver objects and icons – many on loan from museums in eastern Europe.

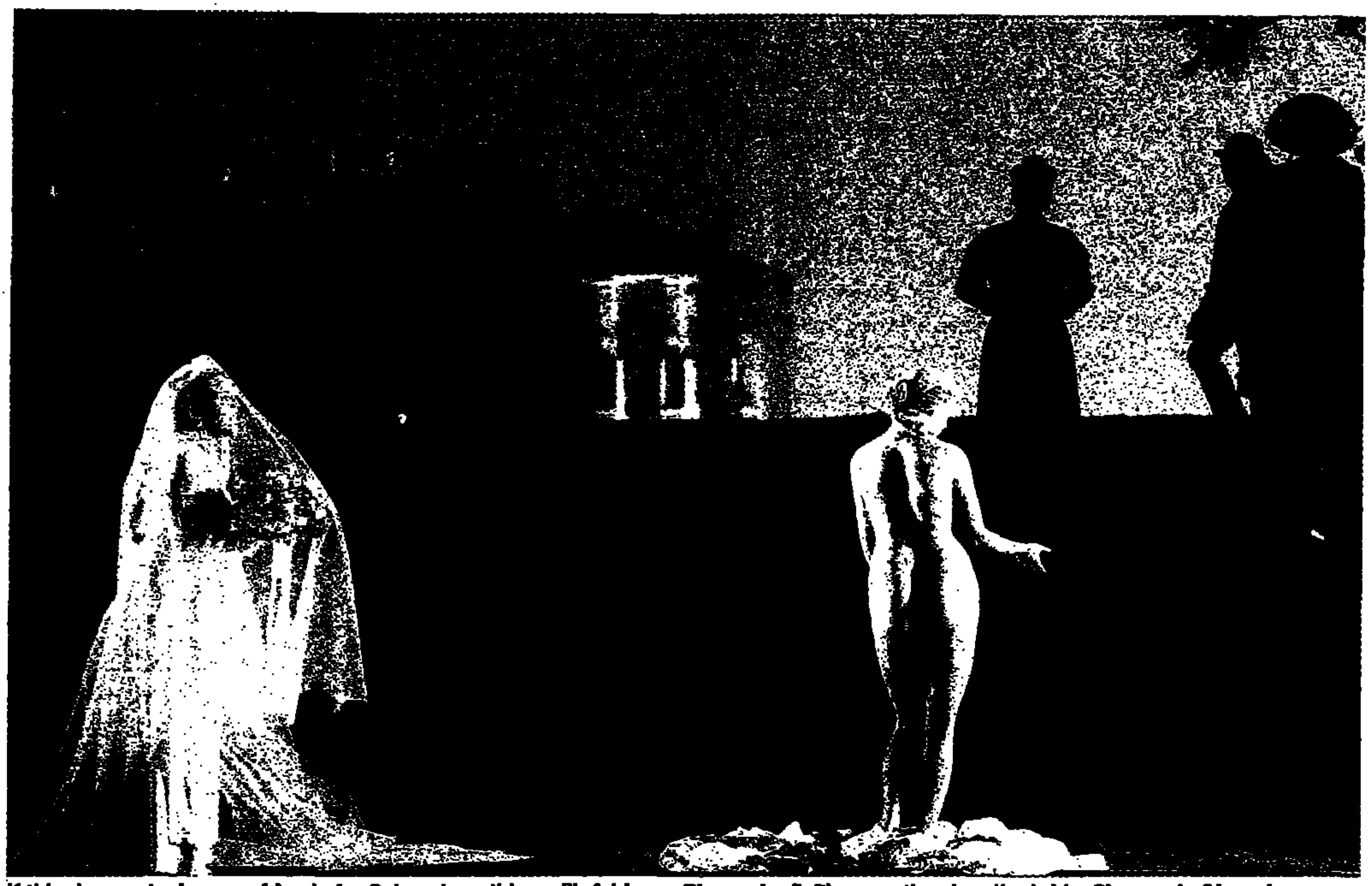
Galina Gorchakova (left) and Vladimir Chernov (right) head the cast in the Metropolitan Opera's new production of Eugene Onegin, opening on Thursday. It is staged by Robert Carsen and conducted by Antonio Pappano, both of whom are working at the Met for the first time. Veteran Russian mezzo Irina Arkhipova also makes a belated Met debut as Filipyevna.

LONDON

Of the 40 Oriental manuscripts in the Royal Collection, the undisputed jewel is the *Padshahnama*, (right), which goes on show at the Queen's Gallery, Buckingham Palace, on Friday. One of the world's greatest testaments to Mughal art, it chronicles the first 10 years of the reign of Shah-Jahan, the 17th century emperor who built the Taj Mahal.

The National Gallery is mounting an exhibition of all the paintings by Monet in London public collections, together with major examples from private collections. The 25 paintings, on show from Wednesday, include *Autumn Effect at Argenteuil* of 1873 and the large *Water Lilies* painted after 1916.

Peter Hall's new repertory company at the Old Vic launches its first season this week, with Hall's own new production of Harley Granville Barker's *Waste*. Opening on Friday this stars Michael Pennington and Felicity Kendal, (left), both of whom are announced to play other leading roles soon in the season.



If this does not win more friends for Schoeck, nothing will: Adrianne Pieczonka (left), exceptional as the bride, Simone, in 'Venus'

An obsession with love gets the Schoeck treatment

Andrew Clark finds Venus prominent on the Swiss operatic front

One of the minor characters in Othmar Schoeck's *Venus* (1922) voices the Calvinist moral that "only by limiting our desires do we achieve true happiness". In Antonio Cesti's *L'Argia*, written more than two centuries earlier, a Shakespearean Fool philosophises that it is "better to take Bacchus as your god than Cupid". In both operas, the goddess of love is the medium through which the main characters rationalise their fate: both portray her as an imprisoning rather than liberating force.

Such down-to-earth, unromantic advice is not what most audiences want to hear – which helps explain why neither work is much performed. By coincidence, both have just been revived by neighbouring companies in western Switzerland and both, in their own way, have been a revelation.

Venus was staged at Geneva's Grand Théâtre in a production which underlined the work's autobiographical inspiration. Schoeck spent the summer of 1919 obsessively pursuing a Geneva pianist with whom he had fallen in love. When the relationship collapsed and she refused to see him, Schoeck had one of his periodic bouts of intense promiscuity and equally intense creativity. The outcome was *Venus*, an opera about a man who loses his senses through an obsession with the goddess of love – the unattainable muse.

Schoeck (1886-1957) is known mainly for his Lieder, of which there are more than 400. He also wrote some attractive late Romantic orchestral music and several operas. Of these *Venus* has fared best in recent years – thanks largely to the advocacy of the Swiss conductor Mario Venzago, who presided over the Geneva performances.

Conflated from novellas by Mérimée and Eichendorff, *Venus* has a poor libretto and just one role of substance – the tenor part of Horace, a man incapable of fixing his love on another human being because he cannot settle for less than perfection. The vocal writing has a Lied-like poise, while a huge orchestra charts a superbly modulated and mildly dissonant path from the pastoral glow of Horace's betrothal in Act 1, through the romantic fantasy of Act 2 to the self-destructive delirium of the finale. All this is achieved in just 90 minutes. Schoeck is Strauss without the sugar or the repetitiveness.

The Geneva performances, staged by Francisco Negrin and designed by Anthony Baker and Yvonne Sassinot de Lesle, mark an important step in the slow but steady Schoeck revival. The beauty of the production was that it allowed us to see everything through Horace's eyes, tracing his withdrawal from reality in the most mesmerising fashion. It also revealed the psychological perceptiveness of Schoeck's music, constantly oscillating between ecstasy and despair.

Act 1, set on a sloping meadow, was a portrait of pre-nuptial calm, over which the exhumation of a statue of Venus – a gift from Horace's eccentric uncle – cast a macabre shadow. Baker's eye-catching decor for the Act 2 wedding party had the indoor/outdoor flavour of a Swiss country villa, which evaporated as Horace's obsession with Venus (briefly and sympathetically brought to life by a dancer) took hold.

In the finale, magically lit by Wolfgang Göbbel, mythology and fantasy became one. Exiled to an abstract world of moon and stars, deaf to the entreaties of the real world, Horace drifted into a Tom Rakewell-like madness, as the mysterious object of his desire vanished before his eyes.

Paul Frey's Horace, sung with impressive stamina, was a sympathetic portrait of human disintegration. As his bride Simone, Adrianne Pieczonka brought substance to a waif of a role: she is a soprano of exceptional gifts – charming stage presence, voice of rare beauty, heavenly sense of line – which will one day make her a perfect Marschallin. Stuart Kale, David Pittman-Jennings, Hanna Schaer and Isabel Molnar provided a lively gallery of supporting characters. And in the pit, Venzago and the Suisse Romande Orchestra excelled themselves, bringing clarity, cogency and refinement to Schoeck's rapidly shifting ideas. If this does not win new friends for Schoeck, nothing will.

Cesti, the most important Italian opera composer of the generation after Monteverdi and Cavalli, was court composer in Innsbruck in 1655 when the recently abdicated Queen Christina of Sweden visited on her way to Rome. *L'Argia* was written as a private entertainment in her honour, and one wonders just what she thought of its litany of incest, cross-dressing and venal intrigue, which makes our own permissive society look like a vicarage tea party. Everyone lusts after everyone else, but no one's love is requited. There is a resolution of sorts, but the ending is remarkably true-to-life.

L'Argia has been drawing large, enthusiastic audiences at the Opéra de Lausanne. Originally believed to have run to more than seven hours, it was staged in a modern reconstruction by René Jacobs lasting just under four. The ballets are cut; so are most of the choruses, and the recitatives have been drastically pruned.

The music is like champagne: it makes an instant impact but quickly falls flat. The best lies in the accompaniments, the harmonic splendour of which was vividly brought to life by Jacobs's period instrument ensemble, Concerto Vocale.

Given its Wagnerian length, and all the twists and turns of the plot, *L'Argia* represents as big a challenge for the modern producer as it does for today's audiences. Jean-Louis Martinoty responded with a brilliantly-sustained piece of burlesque entertainment. Hans Schavernoch's unit set was dominated by a statue of Venus and a wall of mirrors, which reflected in turn the opera's Cypriot setting, the 17th-century court interior at Innsbruck, and the modern world. As is often the case in baroque revivals, there were no stars in the cast, but the singing and acting were of festival standard. Brigitte Balleys was tireless in the long title role, while Darina Takova, David Pittsinger, Steven Cole, Bernard Loonen and Dominique Visse gave stylish support.

Ballet/Sophie Constanti

Shallow 'Bites'

This year's Dance Bites programme offers seven works of varying quality, although nothing noteworthy enough to dispel long-term concern over the Royal Ballet's inability to nurture or attract new choreographic talent. Ashley Page emerges as Dance Bite's most accomplished contributor. Whereas he has both age and practice on his side, younger dance-makers such as Matthew Hart and Tom Sapsford are in transition to dance adulthood.

Sapsford, whose last Dance Bites effort, *Odalisque*, revealed a promising under-developed artistic conscience, is the most disappointing candidate. His *All Nighter* is based on the events that occurred over one long night at a club visited by the choreographer and a group of friends. And although Sapsford is in his 20s, the scene he recreates seems inhabited by teenagers. Indeed, most of the dancers looked and behaved like 14-year-olds, their adolescent awkwardness disturbingly reminiscent of that of Harry Enfield's Kevin and Perry.

Sapsford's youth club romp, an evocation of, perhaps, a drug-induced haze, or of observing the effects of Ecstasy on others, winds down as daylight breaks. As tedious as listening to someone describing their experiences on E or any other chemical substance, *All Nighter* also risks patronising the very people it seeks to portray.

Matthew Hart's *Cry Baby Kreisler*, a trio for Jonathan Cope, Gillian Revie and a grand piano, is equally shallow if marginally more fun. In acknowledgement of Kreisler's virtuosity as a violinist, Hart seeks to demonstrate a matching virtuosity in his two dancers. What ensues is a case of competition rather than co-operation between Cope and Revie, the piano over which they clamber and slide being the only safe haven in an occasionally inventive battle of wits.

Likewise, William Tuckett's *The Magpies' Tower* goes nowhere, taking much longer – an interminable 24 minutes – to do so. Adam Cooper and a trio of women are the hooded, bird-like figures caught in a series of quirky but fruitless encounters, meandering along to a score which unsatisfactorily combines five Bach keyboard pieces and a saxophone quartet by Graham Fitkin.

More rewarding is *Figure in Progress* by newcomer Cathy Marston. Opening with a taut but expansive solo for Edward Watson, Marston then turns our attention to her female trio of living Giacometti sculptures, these etiolated figures made human through a stark physical vocabulary.

Next to Sapsford and Hart, Ashley Page, represented by two pieces – his 1995 *Ebony Concerto* and a Dance Bites premiere, *Room of Cooks* – is hardly in danger of being shown up. Page has produced better works than these, but his attempts to break new ground are always under-pinned by a more interesting mind than that revealed in the work of any of his younger colleagues.

Like last year's *Sleeping with Audrey*, *Room of Cooks* is based upon and named after a painting by Stephen Chambers. Page takes the essential features of Chambers' canvas – a man, a woman, a kitchen table and a meat cleaver – and makes them the elements of his own stage picture. But he adds further mystery by introducing a third character – a young man (Matthew Dibble), perhaps the Joe Peep of Chamber's 1989 work? – to the volatile, sexually charged relationship between Sian Murphy and Michael Nunn. Page does not so much bring the painting's dark depths and hidden meanings to light, as add a further layer of ambiguity, the entire scene and its turbulent emotions fueled by the perfect unsteadiness of Orlando Gough's score.

Neither Page's *Ebony Concerto* nor Christopher Wheeldon's *Pavane Pour une Infante Défunte* (here without its arum lily design) are sufficiently good to make up for the weaker contributions in this years programme. But they do, at least, provide vehicles for some fine dancing, with Darcey Bussell and Jonathan Cope on top form in *Pavane* and Peter Abegglen and Leire Ortueta driving *Ebony Concerto* with a thrilling, sinuous and urgent physicality.

On tour: Theatre Royal Bath, March 10 and 11.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-6718345
● Emma Kirkby: the soprano performs works by Purcell, Handel, Blow, Croft, Greene and Scarlatti; Mar 11

EXHIBITION
Nederlands Scheepvaartmuseum
Tel: 31-20-5232311
● Gevangen in het IJs. Willem Barentsz overwintert in het Behouden Huys 1596-1597: exhibition commemorating the 400th anniversary of Dutch explorer Willem Barentsz' landing on Nova Zembla, while searching for a northern route to the Dutch Indies. After being stranded for eight months the men attempted to return to Holland in hand-built boats. Barentsz died during the voyage. The exhibition features a reconstruction of the men's makeshift shelter on the island and includes a large number of objects found on Nova Zembla during expeditions in the 1870s and 1990s; to Apr 14

BONN

EXHIBITION
Kunst- und Austellungshalle der Bundesrepublik Deutschland
Tel: 49-228-9171200
● Renzo Piano: exhibition examining the work of architect Piano, whose previous projects include the Centre Pompidou in Paris. The display focuses on eight projects, showing the procedures involved from concept to finished building; to Apr 6

COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Gidon Kremer, Veronika Hagen, Clemens Hagen and Alois Posch: the violinist, viola-player, cellist and double bass-player perform works by Schubert and Schnittke. Part of the Schubert-Bicentennary; Mar 12

DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel: 353-1-6718666
● Joseph Kosuth: the first solo exhibition in Ireland of Kosuth's work, including a large-scale installation incorporating the writings and history of James Joyce and Ludwig Wittgenstein; from Mar 13 to Jun 11

FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Orchestre Philharmonique du Luxembourg: with conductor Michael Stern and violinist Dmitry Sitkovetsky perform works by Schumann; Mar 12

DANCE
Jahrhunderthalle Hoechst
Tel: 49-69-3601240
● Stuttgarter Ballett: perform "Brouillards" to music by Debussy, choreographed by Cranko, "My Way" to music by François/Revaux, choreographed by Thoss, "Twilight" to music by Cage, choreographed by van Manen and "Troy Game" to music by Batucada, choreographed by North; Mar 12

LISBON

EXHIBITION
Museo Calouste Gulbenkian
Tel: 351-1-7935131
● Alphonse Mucha and the Spirit of Art Nouveau: display featuring 134 works by Mucha, loaned by the Mucha Foundation in Prague. The exhibition includes photographic works, jewellery, coloured glass and the posters the artist made for Sarah Bernhardt; to May 4

LONDON

CONCERT
Barbican Hall
Tel: 44-171-6384141
● London Symphony Orchestra: with conductor Zubin Mehta perform works by Wagner, Shostakovich and Dvorák; Mar 13
Purcell Room
Tel: 44-171-9604242
● Roland Dyens: the guitarist performs works by Dyens and Ravel; Mar 11
Royal Festival Hall
Tel: 44-171-9604242
● City of Birmingham Symphony Orchestra, Chorus and Youth Chorus: with conductor Sir Simon Rattle, soprano Andrea Gruber, tenor Robert Tear and bass Simon Keenlyside perform works by Penderecki and Britten; Mar 12

EXHIBITION
Tate Gallery Tel: 44-171-8878000
● Hogarth the Painter: display celebrating the birth in 1697 of William Hogarth, highlighting his achievements as the leading painter of his age. The Tate's collection of work by the artist is shown in its entirety, alongside loaned works from public and private collections; to Jun 8

MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● Francisco Durrio Y Julio Gonzalez: display of works by the two Spanish artists known for their sculptures and ceramics produced at the turn of the century; to Apr 1

NEW YORK

AUCTION
Sotheby's Tel: 1-212-606-7000
● English Majolica from a Private Collection: sale of over 1,000 pieces of English Victorian Majolica. Highlights include a pair of Minton Figural Candle Snuffers, a Wedgewood figure "Rebecca at the Well" and a Minton Monkey teapot; Mar 11

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● American Symphony Orchestra: with conductor Leon Botstein perform works by Copland, Siegmeister and Crawford-Seeger; Mar 12

EXHIBITION
Guggenheim Museum SoHo
Tel: 1-212-423-3840
● Art/Fashion: exhibition examining the exchanges between visual art and fashion design through a selection of sketches, watercolours, sculptural works, garments, photographs and installations. Works by artists including Christo, Warhol and Shea will be on display alongside garments designed by Cocteau, Dali and Balla; from Mar 12 to Jun 8

JAZZ & BLUES
Blue Note Tel: 1-212-475-8592
● Phil Woods Sax Machine: performance by the alto saxophonist; from Mar 11 to Mar 16

PARIS

CONCERT
Cité de la Musique
Tel: 33-1 44 84 45 00
● Michel Béroff: the pianist performs works by Debussy; Mar 13
Salle Gaveau
Tel: 33-1 49 53 05 07
● Yury Boukoff: the pianist performs works by Bach, Chopin, Ravel, Debussy, De Falla and Prokofiev; Mar 11

DANCE
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● The Sleeping Beauty: choreographed by Rudolf Nureyev after Petipa to music by Tchaikovsky, performed by the Ballet de l'Opéra National de Paris; Mar 12

THESSALONIKI

EXHIBITION
Thessaloniki Cultural Capital '97
Tel: 30-31-867860-6
● Sir Antony Caro: "The Trojan War": exhibition of work by the British sculptor who produces abstract metal structures utilising welded objects and painted metal sheets. The display consists of a set of sculptures making up an installation entitled "The Trojan War". The exhibition takes place at the Institute Français; from Mar 12 to Apr 24

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Das Rheingold: by Wagner. Conducted by Runnicles and performed by the Wiener Staatsoper. Soloists include Hintermeier, Schnitzer and Gonda; Mar 12

WORLD SERVICE

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CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

FINANCIAL TIMES
Monday March 10 1997

German coal miners down tools over jobs

By Frederick Stüdemann in Kamp-Lintfort

The men on the bus were tired and angry. After shouting themselves hoarse with 5,000 other miners at a demonstration in Düsseldorf against the German government's plans to cut coal subsidies, they were heading home to Kamp-Lintfort near Duisburg.

Like all mining towns across the Ruhr region, Kamp-Lintfort has been in uproar since Friday when it became known that Bonn planned to cut annual subsidies from DM10bn ($5.9bn) to DM3.8bn by 2005. Miners' leaders say this would cost about half the country's 90,000 miners their jobs.

Miners at all west German pits downed tools on Friday. The mines are being picketed. Demonstrations have been held across the Ruhr and some major roads have been blocked.

Such direct action is unusual in German industrial disputes. But, according to Mr Ludger Ingendahl, head of the works council at Kamp-Lintfort, this may soon change. "The mood is hotting up," he says. "It's getting more difficult to keep people in line."

On the bus Mr Ingendahl fields suggestions for action – some want to march to Bonn and take the protest to Chancellor Helmut Kohl's doorstep.

But for the miners the villain is not so much Chancellor Kohl as his junior coalition partner, the liberal Free Democratic party, which has pushed for cuts in taxes and subsidies. "The FDP are ideologues only interested in pure doctrine," said Mr Ingendahl. "But the end result is that the wealth tax is scrapped for the rich while we lose our jobs."

The consensus on the bus was that Germany was moving away from the social market economy. "Since the [Berlin] wall came down the market economy no longer has to show it has a social side," said one miner.

They accept that Germany's uncompetitive coal industry is dying. What has driven them on to the streets is the feeling that Bonn has reneged on a commitment to an orderly retreat.

The Friedrich Heinrich mine employs about 4,000 of Kamp-Lintfort's 40,000 population. If Bonn sticks to its position, union officials say half the miners could lose their jobs, pushing unemployment in the town to more than 20 per cent.

There are concerns about what a surge in unemployment might mean for the Ruhr's role as Germany's ethnic melting pot – a source of local pride.

"Here we stick together. The thing that counts is that you're a miner. Whether you're called Ali or Fritz doesn't matter," says Christian, 33, who has worked at Kamp-Lintfort since he was 15.

Some are uncertain how long such harmony will hold in the face of unemployment. "If it gets worse then things which today no one wants to talk about could start to bubble up," says Mr Karl-Heinz Reimann, a member of the works council.

UPS offers loads of space on its cargo-class service

By Richard Tomkins in New York

First class too expensive? Economy class too cramped? At last, the US has come up with a solution for airline passengers seeking maximum space at minimum cost. It's flying cargo class.

Starting next weekend, thousands of US travellers will be air-freighted to their destinations in the bellies of cargo aircraft bearing the unmistakable chocolate-brown livery of United Parcel Service, the world's biggest package delivery company.

UPS plans to make extra money from its fleet of 197 cargo aircraft by chartering some of them to tour operators at weekends, when the aircraft would otherwise be idle.

Passengers will not be loaded into the aircraft on forklift trucks, nor will they sit among the parcels. UPS is using quick change aircraft, known as QCs, which can speedily swap between cargo and passenger use.

To accommodate passengers, the operator loads seating, galley and lavatory modules on to the aircraft through its cargo doors, bolts them into place, and hooks up the electricity and water. The change can take as little as 30 minutes.

UPS is not the first airline to fly QCs. Some US airlines flew them decades ago, but the earlier technology put too much stress on the aircraft and they were phased out in the 1970s.

More recently, Lufthansa, the German flag carrier, and L'Aeropostale, a French domestic carrier, have started using QCs to carry cargo or mail at night. But UPS will be the first big cargo company to fly QCs, and the first to put passengers in an aircraft bearing a cargo carrier's livery.

The latest conversions were made by Pemco World Air Services, based in Denver. Pemco said they cost between $1m and $5m per aircraft, depending on the work done.

UPS will charter five converted Boeing 727 aircraft to tour operators, which will use them to fly customers between the US and destinations in Mexico and the Caribbean.

UPS said the QCs, which seat 113 passengers, were indistinguishable from normal aircraft on the inside. In some ways, it said, they were better, because the interiors were new and the 33-inch seating pitch was more generous than normally found in economy class.

It conceded that the exterior of the aircraft gave their origin away, but said many passengers would rather fly with a reputable carrier such as UPS than a tiny charter operator they had not heard of.

"Believe it or not, many travel agents who are selling these holidays are promoting the UPS connection," the company said.

Guinness import bar puts Seoul revellers in a paddy

By John Burton in Seoul

O'Kim's Irish Pub in Seoul faces celebrating St Patrick's Day next Monday without Guinness, the Irish dark beer.

South Korean customs officials have barred the import of it and other canned draught beers, alleging health reasons. "The Koreans have decided that Guinness isn't good for you," said a UK official.

But diplomats suspect one factor is a new campaign by business and "citizen" groups to curb "luxury" imports after Korea's record current account deficit of nearly $24bn last year – the largest after the US. Foreign consumer products have often been blamed in Korea for the persistent trade deficit although they account for only 12 per cent of imports.

Korean customs cracked down on Guinness imports after its canned draught brand failed a pressure test supposed to indicate freshness.

It did not take into account draft Guinness is less carbonated than other beers, so it was judged to be "flat" and unsuitable for consumption.

The Westin Chosun Hotel, the owner of O'Kim's, is protesting against the decision, which has deprived the Irish pub of Guinness supplies for two months.

"We hope to have a new stock by St Patrick's Day, otherwise we're going to have a lot of disappointed customers," said a hotel manager.

But other Korean bars and restaurants are campaigning to ban imported liquor, cigarettes and foods from their establishments to fight "excess" consumption. "Don't buy or sell imported cigarettes and whisky," read banners around Seoul, put up by the Korea Central Council of Nightspot Operators.

Nightclub operators are large consumers of foreign liquor and cigarettes – luxury hostess bars charge up to $500 for a bottle of imported whisky. This has not deterred Mr Oh Ho-suk, the council's chairman, from condemning imported products. "Our whole society has been overrun by a culture of excessive and hedonistic consumption," he said. "Our people's consumption has overtaken that of developed countries."

The government denies it has a hand in the boycott. A trade official said it was "a spontaneous and voluntary effort by patriotic citizens to help solve the country's economic problems".

But western diplomats blame the government for at least encouraging the boycotts through official statements calling for frugality.

Difficult climate, Page 4

THE LEX COLUMN

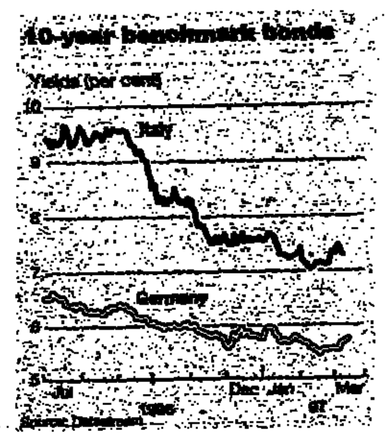
Monetary cracks

Gradually, cracks are emerging in the continental European consensus that monetary union will start in January 1999. The latest came from Mr Lamberto Dini, Italy's foreign minister, who was speaking in Venice at the weekend. While sticking to the official line that Emu will go ahead on time, Mr Dini also acknowledged that a decision may be taken by the end of this year to postpone it a little.

This may seem special pleading by Italy. After all, Italy will struggle to meet the Maastricht criteria if a decision is taken in early 1998 on which countries qualify. Delaying Emu, say by six months to a year, would give Italy more time to put its public finances in order. Certainly, the government would prefer the whole project to be postponed than for Italy to miss its start.

But Mr Dini's spin was that such a delay could also be in the German government's interests: because it would postpone a decision on which countries qualify until after the autumn 1998 election. The government could then fight the election without having to answer criticism that it had abandoned the country's cherished D-Mark for a soft euro.

Whether Mr Dini's analysis of German politics is accurate is moot. After all, a slight delay would not necessarily stop Emu becoming an election issue. The government might still face the charge that it was about to merge the D-Mark with the lira and peseta. Nevertheless, this is secondary. The important point is that senior continental ministers are finally acknowledging that delay is possible. And even a slight adjustment of the timetable would increase the risk that the project could be more seriously derailed – with negative consequences for peripheral European bond markets.



Price/earnings ratios

As financial wizards refine new valuation techniques like economic value, the humble price/earnings ratio is being left behind. This is a pity, because a p/e is still the most convenient way of looking at a stock. But if the p/e is to regain its pre-eminent position, it will have to be bolstered by a little wizardry too.

The biggest weakness is the unscientific way growth is valued. Everybody agrees that high-growth stocks deserve high multiples and low-growth stocks should have low ratios. But how does one justify, say, the fact that UK satellite broadcaster BSkyB trades on a multiple of 37 times June 1997 earnings when the market is on 15? Often analysts do little more than point out that the p/e relative does not look so extreme if earnings are projected a few years out.

It is, though, possible to be more precise. Given assumptions about how fast the market's and the stock's earnings will grow and their relative payout ratios, a p/e can be calculated. This can be done in several ways. But the most promising starts from the assumption that fast-growing companies eventually succumb to the law of averages. Even a Microsoft cannot produce supercharged growth for ever.

Within such a framework, it is possible to play around with different assumptions about how fast a particular stock is growing. Take BSkyB again, whose earnings are expected to grow at an average rate of about 20 per cent in coming years. A pessimistic scenario could be that BSkyB reverts to the mean after only five years; a middling one that it enjoys a further 10 years of supercharged growth; an optimistic one that it takes 15 years before becoming average.

The calculation can then be split into two parts: valuing the stock at the point when it reverts to the mean (the terminal value); and valuing the dividend stream until then.

This may look like classic discounted cash flow (DCF) analysis – and, in some ways, it is. Normally, though, DCF is used to calculate absolute values. The twist is to derive a relative value. This can be done by taking market prices to determine both a stock's terminal value and the discount rate.

The assumption about reverting to the mean implies that the terminal value can be calculated by applying the market's p/e multiple to the company's projected earnings at the point it ceases to produce supernormal growth.

Meanwhile, the market discount rate is the same as the expected long-run total return: so it can be derived by adding the market yield to the rate at which corporate earnings are expected to grow in the long term. Such expectations cannot, unfortunately, be directly observed. But, for the UK, a rate of 8 per cent in nominal terms is probably about right. That gives an after-tax discount rate of 11¼ per cent.

The final piece of the puzzle is the dividend stream. The best way of looking at this is probably to derive it from the projected earnings stream by modelling a pay-out ratio. This makes explicit the typical link between high growth rates and low pay-out ratios. BSkyB is a rare example of a company with high growth and an average pay-out ratio of about 50 per cent.

All that remains is to derive a present value by discounting both the terminal value and the dividend stream. To calculate the stock's warranted p/e, simply divide the present value by the stock's current earnings. What does such a model produce for BSkyB? The pessimistic scenario generates a p/e of 24; the middling one a multiple of 38; and the optimistic one a ratio of 57.

The advantage of this approach is two-fold. First, it allows investors to tease out what growth assumptions lie behind current values. Given BSkyB's actual p/e of 37, the market is effectively assuming another 10 years of supernormal growth before it succumbs to the law of averages.

Second, it forces shareholders to question whether such assumptions are reasonable. Will BSkyB, for example, really be able to maintain its dominant position in pay-TV for 10 years? And will even that be enough to maintain compound growth of 20 per cent?

There are, of course, caveats. The model assumes accounting earnings are a good guide to underlying cash flow; that all shares are equally risky and require the same discount rate; and that the market's earnings will grow at a steady state. Often these assumptions are reasonable. But, if not, it is possible to plug in alternatives – though the maths is then a bit more complicated.

The central assumption is reversion to the mean. Again, this is normally fair. Superstars are almost bound to lose their edge.

Italian merger

Continued from Page 1

involved in wide scale restructuring to prepare for HPI's flotation and the Marzotto merger. It was also anxious to avoid past errors by being more transparent.

The merger, expected to be completed within a few months, will transform Marzotto from a tightly controlled family business into a public conglomerate.

EU to examine subsidy rules

Continued from Page 1

structural funds – EU funds to aid less-developed regions – which must take place before 1999.

Under current rules, companies investing in "Objective 1" regions – areas eligible for the highest aid – can receive up to 75 per cent of the investment in EU aid. Investments in "Objective 2" regions, those affected by the decline of traditional industries, can receive 50 per cent. Mrs Monika Wulf-Mathies, regional aid commissioner, is examining methods to stop the aid system being abused.

The issue of "competition" in corporate taxation is also being examined at EU level, with Germany and France about to come forward with a "code of conduct" on tax.

FT WEATHER GUIDE

Europe today

Ample sun is expected in western, southern and central Europe, where it will continue dry. Local fog patches will lift in the early morning. Temperatures will again exceed seasonal values.

Cool, unstable air will spread over south-eastern Europe. Temperatures will fall and showers will develop over Malta, Greece and along the Black Sea. Bulgaria and western Turkey will have rain.

Rain will mix with snow in north-western Russia.

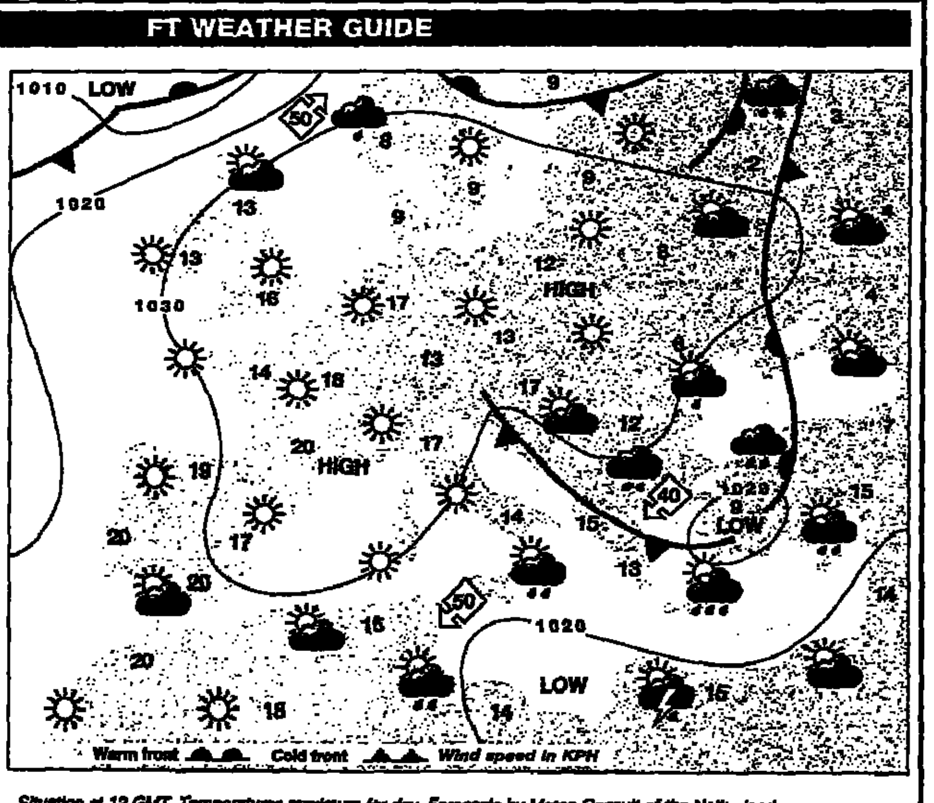
South-western Russia and the Baltic states will be sunny.

Five-day forecast

Western and central areas will continue sunny, mild and dry until Wednesday.

The UK and Scandinavia will become unsettled, and the unsettled conditions will spread into north-western Europe later on.

The south will be calm and sunny, although the eastern Mediterranean will have showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	27
Accra	cloudy	31
Algiers	fair	15
Amsterdam	sun	14
Athens	shower	12
Atlanta	shower	20
B. Aires	shower	26
B.ham	sun	15
Bangkok	fair	37
Barcelona	sun	18
Beijing	sun	13
Belfast	sun	12
Belgrade	fair	13
Berlin	sun	14
Bermuda	fair	20
Bogota	fair	21
Bombay	fair	35
Brussels	sun	18
Budapest	sun	13
C.hagen	sun	10
Cairo	cloudy	17
Cape Town	fair	22
Caracas	fair	29
Cardiff	sun	13
Casablanca	sun	20
Chicago	cloudy	7
Cologne	sun	16
Dakar	fair	29
Dallas	fair	19
Delhi	fair	31
Dubai	fair	27
Dublin	sun	13
Dubrovnik	fair	16
Edinburgh	sun	11
Faro	sun	20
Frankfurt	sun	16
Geneva	sun	15
Gibraltar	fair	18
Glasgow	fair	12
Hamburg	sun	14
Helsinki	sun	8
Hong Kong	fair	26
Honolulu	fair	28
Istanbul	rain	7
Jakarta	fair	31
Jersey	sun	13
Karachi	sun	32
Kuwait	fair	24
L. Angeles	sun	29
Las Palmas	sun	22
Lima	fair	28
Lisbon	sun	20
London	sun	16
Lux.bourg	sun	15
Lyon	sun	15
Madeira	fair	19
Madrid	sun	17
Majorca	sun	18
Malta	shower	14
Manchester	sun	15
Manila	shower	31
Melbourne	fair	22
Mexico City	fair	24
Miami	fair	29
Milan	sun	17
Montreal	snow	1
Moscow	fair	7
Munich	sun	13
Nairobi	fair	30
Naples	sun	17
Nassau	fair	28
New York	rain	7
Nice	sun	18
Nicosia	fair	13
Oslo	fair	8
Paris	sun	17
Perth	sun	28
Prague	sun	13
Rangoon	sun	36
Reykjavik	sleet	2
Rio	fair	30
Rome	sun	15
S. Frisco	sun	23
Seoul	rain	12
Singapore	fair	32
Stockholm	sun	11
Strasbourg	sun	15
Sydney	rain	23
Tangier	sun	19
Tel Aviv	fair	16
Tokyo	fair	15
Toronto	fair	2
Vancouver	rain	10
Venice	sun	16
Vienna	sun	14
Warsaw	sun	12
Washington	rain	15
Wellington	fair	14
Winnipeg	snow	-1
Zurich	sun	12

FINANCIAL TIMES
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Monday March 10 1997

Return of the good tsar

President Boris Yeltsin has returned to active political life with a vengeance, seemingly determined to make up for lost time with a barrage of criticism of his government and some bold promises of reform. In his speech to parliament last week he vowed to cut "fat" from the government and heal the economic scars of the communist era.

The problem is, we have been here before. Mr Yeltsin is a past master of reformist poses. What counts now, after a year of paralysis, is a detailed, thoughtful commitment to change.

Appointing Mr Anatoly Chubais, his chief-of-staff and a formidable administrator, as first deputy prime minister, is a promising first step. But one man, even one as wedded to the market as Mr Chubais, is not enough. The cabinet changes expected in coming days are critical. If he is to foster the competitive economy he promised his people five years ago, Mr Yeltsin needs to assemble a government team with greater all-round competence.

He will also need to give his team the strongest possible political support. Effecting reforms of the kind Mr Yeltsin has promised means challenging the privileges of the business monopolists who now dominate the economy and exercise undue influence over government policy-making.

Restored to strength, Mr Yeltsin would have much to gain from reining in these powerful interests. It could win him plaudits at home. Getting the tax system – and in particular corporate taxes – on a sounder footing would also be of considerable benefit to ordinary people, as well as to the economy as a whole.

That said, it would be foolish to underestimate the president's task. In some respects the changes he promises would be more painful than Russia's first wave of liberalisation in 1992. Reforming the housing sector would mean raising the costs of rent, maintenance and utilities. Pension reform means committing the government to pay less. Military reform means sacking thousands of officers.

After eight months of illness and often mysterious seclusion, Mr Yeltsin has impressed his countrymen and the world by proving he can confidently deliver a 25-minute speech with some of the old fire. His challenge now – again – is to push through a complex and almost certainly unpopular programme. If Mr Yeltsin wishes to go down in history as a good tsar, he cannot afford to fail.

Turkish trouble

A grave constitutional crisis in Turkey was resolved last week when Mr Necmettin Erbakan, the prime minister, accepted the "advice" of the National Security Council (NSC), signing 20 measures to curb rising Islamic radicalism. But the confrontation between the army and the elected government leaves worrying questions about Turkish democracy unanswered.

The measures demanded by the NSC were clearly aimed at members of Mr Erbakan's Refah (welfare) party. Ever since forming his government last summer he has been engaged in a tightrope walk; seeking simultaneously to gratify his supporters, who want more influence for Islam in Turkey's public life, and to reassure the country's establishment, especially the armed forces, which are determined to preserve the secularist heritage of Atatürk.

The NSC's ultimatum – demanding closure of some religious schools, a ban on propaganda on Islamist TV and radio stations, tighter restrictions on religious dress, and a crackdown on Islamic brotherhoods – forced him to choose between his supporters and the army. The latter's defeat of an elected government is hardly a triumph for democracy. Yet the army, which polls show to be Turkey's most trusted institution, probably reflected the views of most Turks. Mr Erbakan's party won 21 per cent of the vote in the last elections, and is only in office because the secular parties could not co-operate.

The real flaw in Turkish democracy is the corrupt and weak leadership of these parties. And a more immediate threat to civil liberties in Turkey than Islamic fundamentalism or reactions to it comes from the war against Kurdish nationalism in the south-east, with its attendant human rights violations.

The Turkish private sector remains amazingly dynamic, but suffers from a parasitic state, which drains its resources to finance an unwinnable dirty war, and the rivalry of corrupt political parties. The army, which intervened three times in politics between 1960 and 1980, knows well that to do so again would only make things worse.

It is high time Turkey's secular politicians got together to address the country's real problems. Unhappily, they are getting little encouragement from the Christian Democrat leaders of western Europe who chose last week – of all weeks – to decide that Turkey's values render it permanently ineligible for EU membership.

UK budget holes

The Conservatives have bandied about so many numbers about Labour's spending plans that they are in danger of confusing voters. They have talked of "Brown's £12bn black hole", "Tony's £30bn bill" and asked "who would pay for the £700m shortfall?"

Mr Gordon Brown, shadow chancellor, insists Labour would stick to the Tories' spending targets: a 0.3 per cent real increase in 1997-98 and 0.4 per cent in 1998-99. But the Conservatives allege Mr Brown would overshoot by £2.3bn in the first year and £7bn in the second.

First, they claim Labour would not implement their budget proposals. For example, the £1.5bn of privatisation proceeds pencilled in for 1998-99 depends on Labour finding businesses to sell. Beyond £500m from a sale of the National Air Traffic Service, Labour has not spelt out how it would raise this money.

Restricting lone parents' benefits for new claimants, which Labour opposes, would bring in £60m in 1998-99, a drop in the ocean in total spending of more than £300bn. The Conservatives also claim Labour would not use £490m of private finance in the NHS over the two years. But they may be mistaken: Labour is probably more committed to getting round public finance constraints in this way.

The second claim is that Labour has made accounting errors. Allowing indebted local councils to use all asset sales receipts for new projects instead of debt repayment would indeed increase public spending and borrowing. But councils would not necessarily use all £2.5bn of their new found freedom.

Private finance of £320m a year to repair schools would count as public spending only if Labour were to bring grant maintained schools back into the public sector, but it is not clear it would. Similarly, the charge that £950m would be needed to expand student loans probably exaggerates Labour's ambitions and underestimates the scope for treating this as private sector finance.

Third, Labour has said that new employment schemes would be paid for by the windfall utilities tax, but the Conservatives say they would cost £600m a year more. Mr Brown's proposals are too vague to assess the likely outcome.

Finally, abolishing tax relief on private medical insurance for the over-60s would not raise enough to cut VAT on fuel to 5 per cent, leaving a £340m shortfall in Labour's budget.

In summary, Labour's plans do imply an increase in public spending over the government's targets. Although this will mainly be financed by the windfall tax, Mr Brown has not fully explained how he would balance the books. However, the spending debate misses the fundamental problem with the public finances. Public spending has tended to rise at 2 per cent a year since 1979. Accommodating rises in public sector pay by cutting jobs may not be sustainable. And Labour would find the public sector unions harder to ignore than the Tories.

Even if the tight plans are fulfilled, the budget deficit still exceeds prudent borrowing by as much as £10bn. That is the real black hole which will confront the election winner.

White House of ill repute

Open mocking of US electoral law by Democrats and Republicans has shaken any lingering belief in politicians' ethics, says Patti Waldmeir

There is a febrile quality to the politics of Washington at the moment. The political classes are consumed by a fever of indignation. For several weeks, the politicians and the media have fought what amounts to a holy war over the issue of money and politics.

The argument is pursued in the highest of moral tones: at the heart is the charge that US politicians – and, most especially, President Bill Clinton and the Democrats – have sullied the nation's democracy by selling access, and even national policy, to the highest bidder.

Critics say the frenzy of fund-raising which he led has infected the body politic, overwhelming the country's fragile campaign finance laws and exacerbating an already widespread public crisis of confidence in government.

President Clinton is accused of violating the most basic principle of American democracy: that all voices, and all votes, are inherently equal. The constitution requires him to lend an ear to all 260m American voices equally. He is accused of listening more intently to those which are amplified by cash, and, most damagingly, to those of people who are not voters at all but foreigners.

The president acknowledges pursuing a fund-raising campaign unprecedented in its scope and its frenzy. But he defends his actions in terms of the national interest: he had to raise huge sums to defeat the foot-soldiers of the Republican revolution.

"We were fighting a battle not simply for our re-election but over the entire direction of the country for years to come," he said last week, on the defensive after a spate of damaging revelations about how he and Mr Al Gore, the vice-president, used the White House to raise funds.

These included the release of internal White House documents showing the president charged $10,000 to have his picture taken with donors, and set a target price of $50,000-$100,000 for contributors to stay overnight in the Lincoln bedroom. A few days later, Mr Gore admitted he solicited donations direct from his White House office.

Still, the president is undaunted. "I don't regret the fact that we worked like crazy to raise enough money to keep from being rolled over by the biggest juggernaut this country has seen in a very long time."

Campaign finance abuse was not invented for the 1996 campaign. The cost of campaigns has risen sharply in recent years, and each one has brought new abuses of fund-raising limits imposed after Watergate. But last year the parties stopped even pretending to obey the rules.

This was partly fuelled by Mr Clinton's personal obsession with raising money. "He decided it was Armageddon," says Mr Fred Wertheimer, veteran campaign reformer, commenting on the president's sense of vulnerability.

On the advice of Mr Dick Morris, his campaign adviser, the president pioneered a new ruse to get round a $37m limit on spending for the primary election campaign. He used the Democratic party to finance an extra $44m in early television advertisements which may have clinched the election. Parties can collect virtually unlimited donations of "soft money" for so-called "issues advocacy" so long as they are not used to promote a particular candidate. But this is the thinnest of fictions: Democratic "issues" ads prominently featured the presidential visage.

The Republican party did the same, if anything on a grander scale. It even used the same firm in candidate and "issues" adverts. Republicans raised $141m in soft money, Democrats $122m, a combined total nearly three times higher than the 1992 election. This open mocking of the electoral laws has shaken any lingering public belief in the ethics of politicians.

All this has brought the American political system under the most intense scrutiny since Watergate. Legislative energy is sapped by the fever of a scandal which could prove seriously debilitating for months to come. The national political agenda and the media are consumed by it.

There is an element of false naivety about some of the furore, says lobbyist Mr Steve Stockmeyer, of the National Association of Business Political Action Committees (a gathering of business lobby groups). "Oh my God, people are committing politics!" he says in mock outrage.

There is also a measure of hypocrisy: some of the commentators who are pillorying the president for enticing donors with meals, coffees or sleep-overs in the White House manoeuvre fiercely for a place at the president's table. Almost everyone enjoys proximity to power: that sentiment probably motivated many, if not most of those who flocked to the White House, even if there were some who expected more concrete benefits.

Proving what those benefits were is difficult. Common sense suggests rational people would not give large sums without the expectation of a profitable return. But even those who follow the money trail professionally say its path is at best obscure.

The Center for Responsive Politics, a democracy advocacy group which published a study, *Cashing in: a guide to money, votes and public policy in the 104th Congress*, notes "even when money seems to play a role in a policy debate, it's seldom the only factor affecting lawmakers' decisions".

Voting is influenced by "geography, ideology, temperament, party, age, education, personal friendships or rivalries", the study says. Most political scientists would agree: money is rarely the determining factor.

Partly, says Mr Norm Ornstein of the American Enterprise Institute, this is because public policy debates pit different monied interests against each other. "It works the way [founding father James] Madison basically figured it would work: these interests balance each other out."

Mr Paul Taylor, a campaign finance reformer who has spearheaded a drive for free political advertising on television, says campaign cash "works on the small 'p' of policy, not on the big 'P'" – it might be able to affect the small details of legislation rather than its general thrust. However, he adds that "there is sometimes a lot of money to be made on the small 'p'".

Most political scientists believe money does not so much purchase votes as reward them after the fact: and it follows the political predispositions of members more often than it leads them.

Yet much criticism of the president assumes the big "P" policies set by the White House bear a price tag: that White House policy on China, for example, was heavily influenced by the donations of Asian Americans who may have raised some money from official Chinese sources. Some $3m in donations, largely from Mr John Huang, a former Democratic fund-raiser and Commerce official, has been returned by the Democratic party, though no official Chinese link has been proved.

Officials of the State Department and National Security Council say it is ludicrous to suggest the president sold US-China policy to Beijing. Policy was reversed in his first term, from an emphasis on punishing human rights abuses to a policy of constructive engagement, but there were overwhelming strategic and commercial reasons.

"The chief executives of the Fortune 500 companies – most of whom gave nothing to the Clinton campaign and do not even vote Democratic – had much more influence over China policy than John Huang," says Mr Ornstein. He says it is "really far-fetched" to imagine US foreign policy is for sale: "You have to go through so many layers to get a policy decision ... that it would almost require a conspiracy."

What foreigners and other donors can buy, though, is access to the president, and that is not without commercial value. In some cases, campaign donors gained places on overseas trade missions. And foreign businessmen can easily turn a photograph with the president into the kind of status symbol that can generate profits back home.

But it is a murky business. The bottom line is that no one really knows what favours the candidates dispensed for campaign cash. And despite protestations to the contrary, politicians appear none too keen to find out – let alone to reform the system.

After much squabbling, Congress looks set to agree an investigation which will avoid the issue of "soft money" almost altogether, focusing only on illegal activities of the presidential and congressional campaigns. This could limit its scope for, as Mr Morris says, "these are such bad laws with so many loopholes, you'd have to be an absolute genius to be a criminal".

Outside Washington, the public is indifferent or scornful. Most dismiss the bloodsport between politicians and journalists as a Washington game with no relevance outside the Capitol beltway. Opinion polls find the public disgusted by the cost and ethics of campaigns but cynical about prospects for change.

Much will depend on the momentum of the scandal as it develops. It could dissipate or build to a pitch which will drown all presidential utterances on any other subject. Mr Clinton's legislative agenda, his attempts to use the 'bully pulpit' to urge changes he cannot legislate, and his very reputation as a president could fall casualty to the crisis.

Meanwhile, both parties have started fund-raising for the next congressional elections – at the end of 1998.

CORRECTION

Emu targets

The figures for EU government deficits for 1997 in Friday's feature "A mark of weakness" were based on OECD estimates published in June 1996. More recent estimates give lower deficits for almost all the countries in the table. We apologise for the error.

· OBSERVER ·

More mire at Nomura

■ Hideo Sakamaki, president of Nomura, Japan's biggest securities company, is under pressure to resign over allegations that his colleagues have – again – been dealing with gangsters.

The heat is on Sakamaki because last week Nomura admitted that it suspected two directors of illegally paying off clients. They were almost certainly *sokaiya*, corporate extortionists who extract bribes in return for promising not to ask embarrassing questions at shareholders' meetings. An official investigation is under way.

What was that about history repeating itself? Six years ago Nomura staff were found to have been illegally compensating favoured clients for share losses, and also to have been helping a notorious gangster try to corner the shares of a railway company. The two top men at the time, Yoshihisa Tabuchi, president, and Tetsuya Tabuchi, chairman, both fell on their swords. The passing of 'little' and 'big' Tabuchi, as they are known – they are not related – was supposed to signal a corruption-free renaissance for the tainted house of Nomura.

But, as so often in Japanese corporate life, falling on one's sword lacks the terminal status it possessed in far off Samurai days.

Nobody paid much attention, at the time, to the fact that Sakamaki – called in to clean up after the Tabuchi affair – happened to be the Tabuchis' protégé. Neither was anyone impolite enough to draw attention to this in 1995, when the Tabuchis made a remarkable comeback, having been asked to rejoin the Nomura board as counsellors. So if Sakamaki should now resign, the chances are that few will be convinced that Nomura's Augean stable is truly cleansed.

Share the burden

■ April is certainly going to be the cruellest month this year for Italians – they will have to fork out the first of two instalments of a one-off Euro-tax. Prime minister Romano Prodi hopes this fiscal invention will help Italy slip into the first wave of Euro-currency participants.

The heavily progressive Euro-tax will lighten Italian pockets by the equivalent of an average $163 per individual taxpayer, in total some L5,500bn – no small fee for joining a club that may never open its doors or may refuse the eager applicant.

One of the more interesting twists in this tale concerns the British staff of the UK's embassy in Rome. Locally-employed Italians will of course be expected to pay the Prodi tax. But rather surprisingly, the British staff will also be paying it; they've been told that their March salaries will have the Italian Euro-tax docked from them. The money will go not to the Italian taxman but back into embassy funds.

A Euro-tax on Brits in the Crown's employ raises some intriguing questions. Could the embassy be deliberately sabotaging London's Euro-sceptic efforts? Or perhaps it's running an independent Emu policy? Even more Machiavellian, perhaps the embassy will use the revenues to undermine Italian Euro-enthusiasm ...

Broken spines

■ Mikhail Gorbachev, the former Soviet leader, was in Warsaw at the end of last week to pick up a prize from *Polityka*, Poland's leading weekly magazine. Let's hope he didn't give Lech Walesa – another former president now doing the lecture circuit – a copy of his latest book.

The reason we advise this is because a tome by Boris Yeltsin, the Kremlin's present incumbent, recently turned up on a Gdansk rubbish tip. Inside the book was inscribed a warm dedication to ... Lech Walesa. The junking of the text is thought to be not so much a form of literary criticism as a bit of house clearance by Walesa, who is moving home.

Yeltsin gave his book to Walesa when he came to Poland in 1994 and absent-mindedly said Russia had nothing against Poland joining Nato, a statement since denied by the Russian leadership.

Still, at least Walesa wasn't simply prejudiced against Yeltsin. His book was joined in the dustbin of history by works containing dedications from five other, albeit lesser, authors.

Mr Personality

■ The suspense is over. Ukraine's Man of the Year is ... President Leonid Kuchma, who captured the award for the second year running. Kuchma also took the titles for most influential politician, economic policy maker and national leader.

The Taras Shevchenko Foundation announced its choices on Saturday night. None was exactly a surprise – no sane Ukrainian would dream of mounting a challenge. "I can think of no worse fate than actually getting this thing instead of him," says one senior cabinet minister.

The Financial Times

100 years ago

Industry In Italy
A lengthy Foreign Office report dealing with the economic and financial situation in Italy draws attention to the rapid way in which that country is becoming self-sufficing through the development of home manufactures. In spite of the increase in population, the imports of manufactured goods have declined about 50 per cent in ten years, "and it may be reasonably assumed that local production has increased in at least the same proportion." The increase in domestic manufactures cannot, of course, be prevented by us in Great Britain, but, according to our Consul, many classes of our manufactures being imported into Italy are being injured by German and Austrian competition. Like many other Consuls abroad, he urges the advisability of paying more attention to the requirements of the market.

50 years ago

Pay Claim at Gen. Motors
The United Automobile Workers of the U.S. have announced that they will ask for a guaranteed 44-hour week and a wage increase of 23½ cents an hour for 225,000 employees of General Motors.

Restructuring costs hit Telstra results

By Nikki Tait in Sydney

Profits at Telstra, the Australian telecommunications group which has been earmarked for partial privatisation by the federal government, fell by 38.4 per cent to A$742m (US$586m) in the half-year to end-December, after the company took a A$1.03bn one-off charge to cover redundancy and restructuring costs.

Telstra said the large abnormal charge stemmed from its previously announced "strategic plan", which is designed to cut about 22,000 jobs over a three-year period. Telstra currently employs just under 70,000 people and has fared poorly in international comparisons of labour productivity.

It said about 7,000 jobs had been lost during the latest half-year, through a mixture of attrition, redundancy and outsourcing.

Mr Frank Blount, the company's chief executive, also said Telstra was continuing to hold discussions over "global co-operative arrangements", such as joint ventures or formal alliances.

Telstra has acknowledged holding talks with Britain's BT and MCI, its proposed US merger parter. Pressed for details, Mr Blount also pointed to discussions with the Global One consortium, which includes Sprint and AT&T.

"We're dancing with everyone – we haven't taken anyone home yet," he said.

Ahead of the restructuring provision, Telstra posted a 16.1 per cent rise in interim profits to A$1.4bn. The result, however, was helped by a lower depreciation/amortisation charge and by reduced interest costs. Operating earnings before these items increased by 6.5 per cent to A$3.43bn, on revenues up by 4.8 per cent to A$8bn.

The company acknowledged that mounting competition in the Australian telecoms market had reduced aggregate revenue from traditional areas such as local, STD and IDD calls, but said that the increase had come from new areas, including electronic commerce and its customised Internet services.

At present, there is a duopoly in the long-distance market and three players in the fast-growing mobile sector, but Australia is due to move to full competition this year.

Telstra said its costs rose fairly modestly, by 3.85 per cent, thanks mainly to lower contractor payments, reduced growth in material costs and tighter management of "discretionary" costs.

Capital investment in the half-year was A$1.94bn. Mr Blount said that Telstra's cable roll-out – over which Foxtel, a joint venture between Telstra and Mr Rupert Murdoch's News Corporation, is supplying pay-TV services – is about 10 per cent behind schedule and he acknowledged holding talks with rival Optus Vision over possible ways to alleviate duplication. Foxtel said later it made a loss of A$93m in the half-year.

Telstra also revealed that it is paying a slightly smaller, A$625m compared with A$686m last time, dividend to the federal government, its sole shareholder. The government is planning partially to privatise Telstra during the current parliamentary term by selling one-third of its shares to private investors. It is estimated that this will raise around A$8bn.

NEWS DIGEST

CSX expands cash offer for Conrail

CSX, one of the three large eastern US railroads, has expanded its cash offer for Conrail of $115 a share to include all shares, bringing to an end the long-running battle for control of the US rail company. Last week, CSX and Norfolk Southern, its rival for control of Conrail, agreed to divide Conrail between them, and have already started detailed talks. Under the agreement, both will have equal access to the New York Market, currently dominated by Conrail, leaving two balanced networks in the eastern US.

Mr David LeVan, chairman, president and chief executive officer of Conrail, said: "Our amended merger agreement with CSX gives unprecedented value to Conrail shareholders and provides that they will be paid in under 90 days without regulatory risk."

Mr David Goode, chairman and chief executive officer of Norfolk Southern, said his company "will now begin talks with CSX to work out the joint purchase of Conrail shares and the other details of this historic transaction."

Tracy Corrigan, New York

First europeso securities

The World Bank and its private sector arm, the International Finance Corporation, are set to launch the first europeso flotations offshore in a move which will increase the Philippines' profile in international capital markets.

The Philippines central bank said it has approved the issue of between 2.5bn pesos and 4bn pesos ($95m-$152m). The World Bank and the IFC are expected to swap the proceeds into dollars. Deutsche Morgan Grenfell and Citibank will lead manage the World Bank and IFC issues respectively. Standard & Poor's, the US credit rating agency, upgraded the country's sovereign debt from BB to BB+ last month, leaving it one notch below investment grade.

Justin Marozzi, Manila

GSM boosts Italia Mobile

Telecom Italia Mobile, Italy's state-controlled cellular telephone operator, reported net profit of L830bn ($546m) for 1996 after paying L1,050bn in taxes and L77bn in extraordinary charges. Revenues were L7,348bn and gross operating margin was L3,232bn. Comparable figures for the previous year were not available, as TIM was a division of Telecom Italia, the fixed telephony operator, until it was spun off in mid-July 1995. For five and a half months of operations in 1995, TIM made L350bn in post-tax profit on sales of L2,801bn. Taxes were L295bn.

The company enjoyed strong cash-flow in 1996, closing the year with a net financial surplus of L497bn, after spending L1,057bn on fixed assets and investing a further L604bn. The surplus was an improvement of L174bn on year-end 1995. The company will recommend a dividend of L50 a share, against L10 for 1995.

TIM's performance has been helped by particularly rapid growth of its GSM service, whose 1.9m subscribers at the end of the year accounted for almost one third of the company's total subscribers.

David Lane, Rome

Generali opens war archives

Generali, the Italian insurance company, agreed at the weekend to open its archives housing insurance policies belonging to Jews murdered in the holocaust. But it rejected any legal liability to claimants. The decision follows pressure from Israeli parliamentarians, who recently threatened to try and block Generali's bid to purchase control of Migdal, a leading Israeli insurance company, unless it agreed to open its records.

Mrs Elisheva Ansbacher, an Israeli lawyer representing 27 families of policyholders murdered in the holocaust said that in spite of Generali's promise to consider a compensation arrangement for her clients, "the statement did not mention even one word about compensation."

Avi Machlis, Jerusalem

Peru completes Brady deal

Peru has completed its long-awaited Brady debt restructuring deal. Mr Jorge Camet, Peru's economy and finance minister, said the deal puts the country "in a position fully to access the international capital and credit markets."

The deal ends a 14-year-long hiatus in Peru's relations with some 180 commercial banking creditors. Peru suspended debt repayments in 1983, when natural disasters caused a dramatic slump in GDP. Payments to banks were definitively broken off during the Alan Garcia government of 1985–1990.

The Brady deal restructures some $10.6bn of Peru's commercial banking debt. It involved the government issuing $560m in discount bonds, $182m in par bonds, $1.7bn in front-loaded interest reduction bonds and $2.4bn in past-due interest bonds. The government also repurchased $2.6bn of eligible debt under a debt buy-back.

Closing the Brady deal cost Peru an upfront payment of between $1.3bn and $1.4bn, of which $800m was financed by a credit from the multilateral organisations. Annual servicing of the deal will mean an additional debt burden for Peru of some $250m initially, rising above $500m annually by year eight and $650m by year 15.

Sally Bowen, Lima

Sidek plans restructuring

Grupo Sidek, the Mexico-based tourism and real estate company, said it was drawing up a new restructuring plan after announcing a net loss to majority shareholders of 2.48bn pesos in 1996 compared with a net loss of 2.4bn pesos in 1995, on revenues of 4.32bn pesos ($539m), down 13 per cent from 4.95bn pesos in 1995.

Sidek, which was unable to reach an agreement with enough creditors to implement the debt restructuring plan it disclosed in April 1996, also said it would present to shareholders at a meeting on April 8 a report on financial irregularities discovered in the second half of 1996.The 1996 loss included a provision for doubtful receivables of 1.22bn pesos in 1996 compared with 748m pesos in 1995.

The company's total debt at December 31 was 17.28bn pesos, about 93 per cent of which is denominated in dollars. About 95 per cent of the total debt has a maturity of less than one year.

AP-DJ, Guadalajara

Earnings at Sime Darby up by 56%

By James Kynge in Kuala Lumpur

Sime Darby, Malaysia's largest conglomerate, posted a 56 per cent increase in interim pre-tax profit, mainly due to fine performances from Sime Bank, which it acquired last year, and brisk sales of cars from another subsidiary.

Group pre-tax profit rose from M$502.20m to M$784.50m (US$316) and net profit from M$284.7m to M$400m in the half year to December 1996. Turnover rose 33 per cent from M$4.78bn to M$6.38bn. Group earnings per share were 17.2 cents, up from 13.5 cents.

The company expects to maintain earnings growth at that level in the second half of the financial year.

The financial services division posted a 10-fold increase in pre-tax profit from M$21.5m to M$227.2m, following the acquisition of United Malayan Banking, which has since been renamed Sime Bank.

Malaysia's banks are experiencing bumper earnings, mainly derived from healthy margins on their lending and borrowing in an economy which posted its ninth year of growth at above 8 per cent last year.

Sime's plantations, the company's traditional business, which has become steadily less important, experienced another contraction in profit from M$90.7m to M$74.3m. This was attributed to lower crude palm oil prices, partially offset by a bigger contribution from refining.

Brisk sales of foreign cars boosted earnings at Tractors Malaysia, a Sime subsidiary. It posted pre-tax profit up 16 per cent to M$82.3m. Sime UEP Properties, a property division, enjoyed a 33 per cent rise in pre-tax profit to M$94.4m.

China Travel to buy 20% stake in Citybus

By Louise Lucas in Hong Kong

China Travel International Investment Hong Kong, the mainland-backed travel, tourism and investment group, is to pay HK$487m (US$63m) for an effective 20 per cent stake in Citybus Group, one of the territory's four franchised bus companies.

The two groups have further agreed to set up a joint venture company, CTS Citybus, which will promote and develop land passenger transport services across the Hong Kong border with China.

The venture will absorb the existing services run by Citybus and CTI on the route, and seek to build on these. Total investment in the joint venture company is HK$100m.

The purchase comes barely two months after CTI raised some HK$2.5bn in a share placement. The placement was snapped up, partially on the expectation that CTI would purchase hotel or infrastructure assets from its Beijing parent. In comparison, the Citybus stake is seen as less inspired.

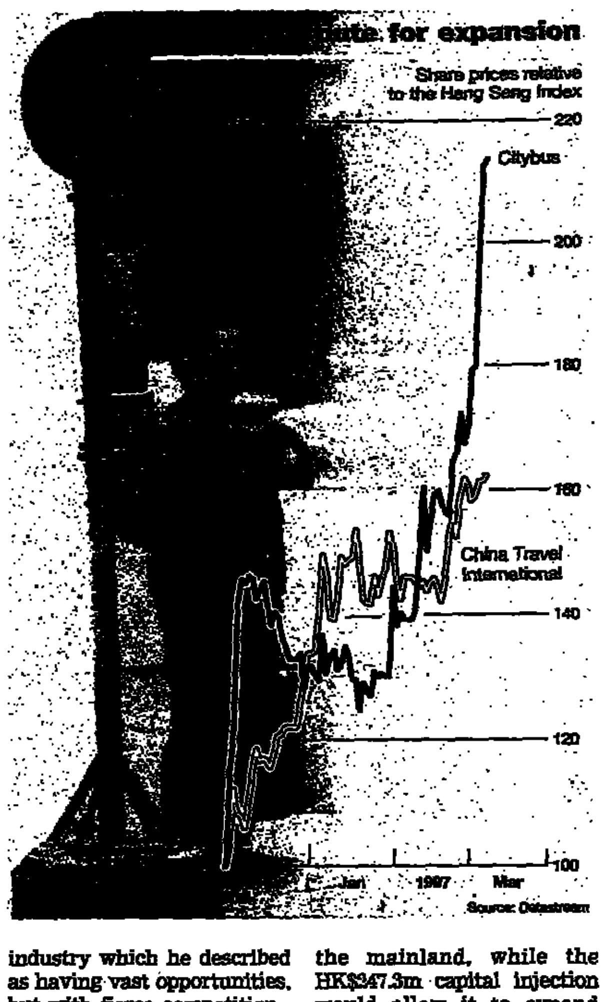
Under the deal, CTI will take a 10 per cent stake – by buying a new placement of shares – in Citybus for HK$2.18 per share, representing a generous discount of 33.9 per cent to the closing price of HK$3.30 on March 5, before the deal was unveiled. In aggregate, Citybus will receive some HK$247.3m in cash.

CTI will take a further 10 per cent indirectly, by paying to CNT Group, the Citybus parent company, HK$240.45m for a 19.1 per cent stake in CNT's holding vehicle for its 57.6 per cent interest in Citybus.

CNT Group's activities span property to paint, and the group is controlled by Mr Tsui Tsing-tong, a benefactor of London's Victoria and Albert museum.

CTI says it will fund its purchases through internal resources. Mr Michael Ng, executive director of CTI, said the deal would yoke the experience of two management teams in China's bus industry which he described as having vast opportunities, but with fierce competition.

Citybus directors said the deal would boost its ability to exploit opportunities in the mainland, while the HK$347.3m capital injection would allow it to expand existing routes and to undertake further projects in the future.



Dai-Ichi Kangyo to fall into the red

By William Dawkins in Tokyo

Dai-Ichi Kangyo Bank, one of Japan's largest commercial lenders, plans to write off Y550bn of bad loans this year, plunging it into the red for the first time.

It expects a Y300bn recurring loss for the year ending this month, instead of the Y40bn profit forecast when it announced interim results last November. In the year to March 1996, DKB made a Y129.7bn recurring profit, one of only three of Japan's top 10 commercial banks to be in the black.

Financial analysts welcomed the write-off and plans to cut staff and branches. DKB had been slower than most commercial banks to write off bad debts, one reason it was able to declare a profit last year. Its bad loans are a familiar legacy of property-backed lending in the 1980s, when property prices were rising fast, only to decline with equal rapidity when the domestic economy started to slow down six years ago.

Mr Nozomu Kuhishige of Lehman Brothers in Tokyo said DKB was now in a position to write off the remainder of its bad debt portfolio in two to three years. This puts it in the same league as the strongest two or three commercial banks.

DKB declared Y1,197bn of bad debts in its most recent results, for the six months to last September. Despite the coming loss, DKB plans to pay an unchanged annual dividend of Y8.5 per share.

In the short term, the loss will reduce DKB's ratio of capital to risk-weighted assets from the current 9.3 per cent to about 8.5 per cent, estimated Mr James Fiorillo of ING Barings in Tokyo. In the longer term, it would allow DKB managers to focus on improving underlying profitability.

JAL set to post Y20bn loss

By Michiyo Nakamoto in Tokyo

Japan Airlines, the international and domestic carrier, said it would fall into loss this year, rather than break even as previously forecast, because of higher fuel prices and the weaker yen.

The company expects to make a recurring loss of Y20bn ($164m), compared with a Y4bn profit last year, and a net loss of Y14bn.

The losses are in spite of revenues up 6.5 per cent from Y1,115.9bn to Y1,188bn.

The company will not pay a dividend.

Earlier, JAL had been forecasting revenues of Y1,177bn and a net profit of Y1bn. However, a 26 per cent year-on-year increase in fuel costs would add Y32.6bn to its fuel bill, the company said.

Although investors had expected to see the adverse effects of higher fuel prices, the revised forecast was worse than anticipated.

The company has been undergoing a restructuring. It will sink back in to the red only two years after it emerged from a string of losses between 1992 and 1994. These were caused by intensified competition amid the downturn in the Japanese economy.

Mr Douglas Hayashi, industry analyst at BZW Securities in Tokyo, said that although JAL has already taken out significant costs, it still needs to work on reducing costs further.

The airline said it would step up some aspects of its restructuring programme by more or less freezing recruitment of full-time staff next April, although some cockpit crew may be hired.

It has not recruited full-time cabin attendants since 1993. However, it is already committed to hiring 133 full-time ground and cockpit staff this spring.

JAL said that business in general has been buoyant. Its aircraft are flying with high load factors, with international traffic up almost 7 per cent between April last year and this January, the company said.

European routes in particular have been in strong demand, with traffic up 20 per cent year-on-year in January.

Singapore to ease SE listing requirements

By James Kynge

Singapore is to ease requirements for infrastructure companies wishing to list on the foreign board of its stock exchange, the latest step in efforts to broaden the city state's capital markets ahead of regional competition.

Mr Richard Hu, finance minister, said the minimum infrastructure project size for foreign companies seeking a listing is to be revised to S$150m (US$105m) from S$300m. Companies can use the combined value of all their projects to satisfy the requirement.

The move is intended to breathe life into the foreign board which, since it was launched last year, has attracted only one listing, that of CM Telecom, a Hong Kong firm which runs a lucrative pager business in China.

CM Telecom is quoted in US dollars on the Singapore exchange, in line with local regulations.

Stock exchange officials see a niche for Singapore as a less volatile alternative to a Hong Kong listing for companies which do business in China's booming but uncertain economy.

They say that Singapore – which also generally has higher price earnings ratios than in Hong Kong – offers a degree of insulation from political concerns in China that Hong Kong does not have.

The relaxation is also seen to be partly motivated by attempts to keep ahead of Malaysia, which has ambitions to become south-east Asia's centre for capital markets. Malaysia last month announced that it will launch late this year a new exchange for local or foreign high-technology companies with little track record.

The Malaysian Exchange of Securities Dealings and Automated Quotations (Mesdaq) will require companies to have a minimum paid-up capital of M$2m (US$0.81m). Another criteria is that companies should invest within Malaysia at least 70 per cent of the funds they raise on Mesdaq.

The launch of Mesdaq will mean that in theory, at least, foreign high-tech companies planning infrastructure expansion in Malaysia will have the choice of listing either in Kuala Lumpur or in Singapore, economists said.

GE widens European sales campaign

By Peter Marsh

General Electric of the US has set ambitious growth targets for sales of a range of electrical and lighting products in Europe, as part of its strategy for expanding its $16bn annual revenues from the region.

The world's biggest company by market capitalisation is planning to double its European sales of electrical power control products, which include switches, circuit breakers and sockets for households and industry, over the next three to five years.

It also wants to expand European sales of light bulbs and industrial lighting products by 60 per cent over the same period. That would raise annual revenues from power control and lighting in Europe from about $1.2bn last year to some $2.5bn.

The targets are part of the plan of Mr Jack Welch, GE chairman, to expand non-US revenues from 42 per cent last year to 50 per cent by 2000. Last year GE had worldwide sales of $79bn.

GE has already announced that over the next three years it wants to double its annual sales of domestic appliances in Europe from about $1bn a year, including joint ventures, to $2bn.

The company is lagging behind other European electrical engineering companies. In low-voltage power control products, GE takes fourth place in the European market, with an 8 per cent market share worth some $8bn a year, behind Schneider of France, Siemens of Germany and the Swiss-Swedish ABB.

In light sources it is in third position, with its 15 per cent share of a $4bn a year market roughly half that of the two European leaders – Philips of the Netherlands and Osram, the subsidiary of Siemens.

Mr Ricardo Artigas, chief executive of GE's European power control business, is planning to expand his division's sales by a mixture of new products and better service to customers, helped by acquisitions.

Mr Artigas is looking particularly at possible acquisitions in France and Britain – countries where GE's market share in power control devices is fairly low.

In light sources, GE is trusting that its $600m investment since 1990 in buying and modernising eight plants in Hungary will pay off over the next few years by providing a highly competitive production base for future expansion. The plants provide some two-thirds of GE's European lighting output

Mr Mike Zafirovski, GE's chief executive for its European lighting division, said the Hungarian plants, which have 9,500 employees, were a "great strength". The company has four other European plants – two in the UK, bought from Thorn EMI in 1991, and one each in Italy and Turkey.

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IN BRIEF

Restructuring costs hit Telstra

Profits at Telstra, the Australian telecommunications group which has been earmarked for partial privatisation by the federal government, fell 38.4 per cent to A$742m (US$586m) in the half-year to end-December, after it took a A$1.08bn one-off charge to cover redundancy and restructuring costs. Page 26

China Travel to buy 20% Citybus stake
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Lonrho considers hotel break-up
Lonrho, the UK conglomerate, is considering a break-up of its Princess chain of hotels and the sale of its African sugar interests as part of the forthcoming demerger. Page 27

SmithKline Beecham signs lolly deal
SmithKline Beecham, the UK's second-largest drugs group, has signed a licensing deal with Treats, an ice lolly group, to allow it to use Ribena, its blackcurrant-flavoured vitamin C-laced children's drink, for lollies. Page 27

BT wins first German satellite order
Less than 10 months before the opening of telecommunications markets across Europe, British Telecommunications has won its first big satellite communications order in Germany. Page 27

UAT wins control of Pilot trust
Undervalued Assets Trust will today announce that it has won control of Pilot Investment Trust, the beleaguered small companies trust which has admitted that its recent performance has been "poor". Page 27

Global Investor
The real question regarding Wall Street's level is not whether a correction is overdue or the likelihood of an interest rate rise at the forthcoming meeting of the Federal Reserve open market committee, but what follows the correction when and if it comes. Page 28

Companies in this issue

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Formula One on track for flotation

Stock market listings could raise $4bn and transform Grand Prix motor racing

By John Griffiths

The flotation of Formula One, which could raise $4bn (£2.4bn) on the London and New York stock markets, will transform coverage of Grand Prix motor racing.

Outline plans for the offering suggest a global TV service on a digitised, pay-per-view basis would generate projected annual revenues of about $1bn within five years.

A prospectus is being prepared for possible issue in May, to be followed by listings by the end of July.

A decision is expected from Mr Bernie Ecclestone, founder of the Formula One Constructors' Association, and Salomon Brothers, his US investment bank advisers, on his return to London tomorrow from the Melbourne Grand Prix, which opened the season.

It has been no secret in the Formula One world for months that Mr Ecclestone, who almost single-handedly controls Formula One, has been considering a float. Aged 65, he has no obvious heir-apparent.

The $4bn valuation is based mainly on the prospects for digital TV and income stream from media coverage rights. More than 130 countries which receive transmissions of the 17 Grands Prix this year, for which an average audience of 450m is claimed by the constructors' association.

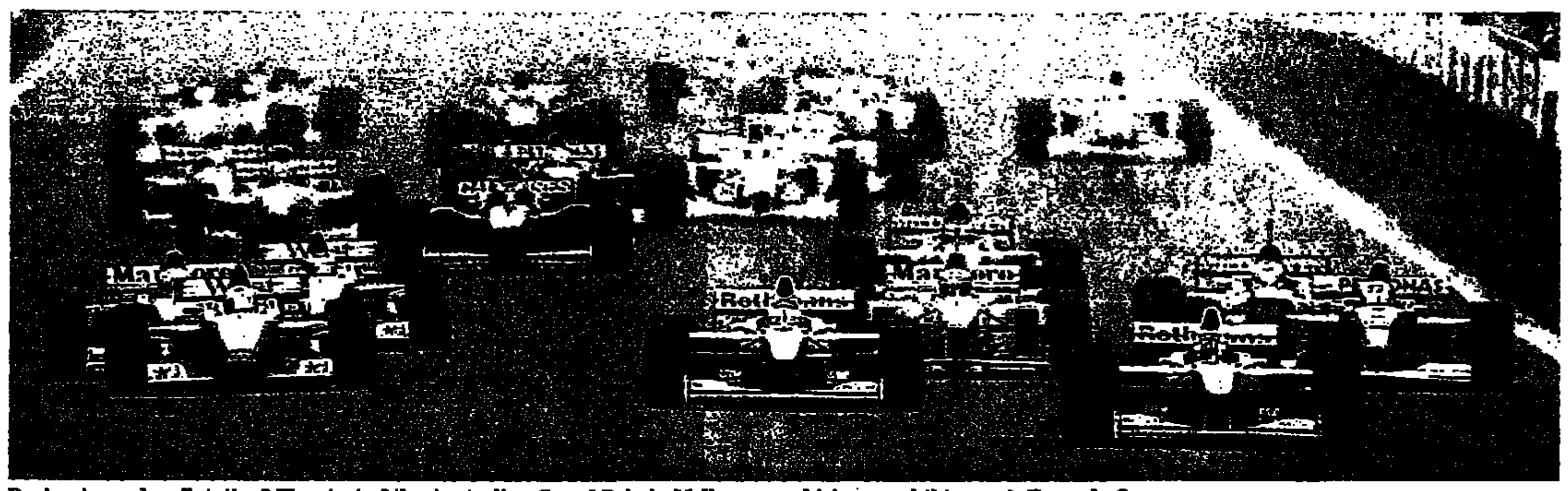
However, other companies under Mr Ecclestone's control are also expected to be included in the package. These are Formula One Communications and Administration, charged with creating media packages; International Sportsworld Communications, which negotiates TV and other broadcast media rights; and Formula One Promotion and Administration, which handles a substantial revenue stream from circuits wishing to stage Grands Prix and from promotional materials such as clothing and accessories sales, and hospitality.

In 25 years Mr Ecclestone has transformed Formula One from a minority interest sport to a global media circus. As the constructors' association has persistently pointed out, the global TV audience for each of the season's 17 Grands Prix is only equalled by those of the Olympics and World Cup soccer – which take place only once every four years.

Mr Ecclestone has invested about £50m in his own digital TV technical operations, which will travel to each circuit starting in the 1998 season. Pay viewers, using their TV remote controls, will be able to hop between cameras to view the race.

He has already negotiated packages with Canal Plus of France and the German Kirsch network to start exploiting the technology. Negotiations are under way with Sky Television.

While the precise structure of a flotation is still being evaluated, Grand Prix teams and institutions are likely to be offered first bite in the form of placement offers. However, Mr Ecclestone also wants to see more than a token shareholding among some of Formula One's millions of private enthusiasts around the world.



Racing towards a flotation? The start of the Australian Grand Prix in Melbourne, which opened this year's Formula One season Picture: Associated Press

Pace seeks new chief executive to replace co-founder

By Christopher Price

Mr David Hood, joint founder and chief executive of Pace Micro Technology, will stand aside when a replacement is found to head the digital satellite receiver group which recently issued two profits warnings in quick succession.

Pace ousted Mr Barry Rubery, Mr Hood's co-founder and joint chief executive, at the time of the second warning two weeks ago.

The events sent the company's shares down 45 per cent on the day, leaving them at exactly half their value when Pace floated amid great publicity and expectations last June.

Angry institutional shareholders who met Mr Peter Morgan, the Pace chairman last week, have pressed the company to appoint a single chief executive with public company experience.

"We would like to see someone with a strong track record who could give Pace the leadership it needs," said one fund manager.

Other institutions criticised the management structure at Pace, which saw Mr Rubery taking responsibility for sales and marketing and Mr Hood overseeing manufacturing.

The two men, who founded Pace in 1982, made $290m between them from the float and retain 10 per cent and 24 per cent shareholdings respectively. Mr Rubery left Pace due to "irreconcilable differences of management style".

Mr Hood will remain on the Pace board, but Mr Rubery's hopes of being retained as a consultant seem unlikely to be fulfilled. "He does not figure in our plans for the future," said Mr Morgan.

Mr Morgan visited around 25 institutions last week accompanied by Panmure Gordon, the group's advisers, in an attempt to soothe City concerns. "Obviously, people are disappointed and frustrated but we have been trying to explain where the company goes from here," he said.

"There is a learning curve in the digital television market and we have failed in the past to communicate the vagaries of that market. We had allowed people to think expectations were more certain than they perhaps were."

Investors have also expressed anxiety about the forthcoming BSkyB contract for UK digital satellite television set-top boxes. The contract, which could be worth up to $1.63bn, is likely to be placed among three to four suppliers.

Even if Pace wins a slice of the business, some fund managers fear its problems could lead to BSkyB forcing harsh terms on the supplier.

One institution said: "Pace has always promised a lot. We would like to see it start to deliver."

Boca Raton prepares for heated exchanges

Futures industry divided over deregulation

By Laurie Morse in Chicago

US Senate plans for wholesale deregulation of the $21,000bn derivatives and swaps markets will be hotly debated by international regulators meeting this week in Florida.

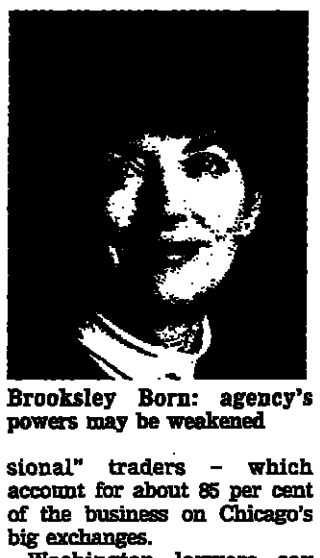
The Senate wants to remove much of the Commodity Futures Trading Commission's jurisdiction over futures exchanges and the largely over-the-counter swaps market.

Ms Brooksley Born, the CFTC's chairwoman, says the bill would remove her agency's powers to detect and prevent fraud and market manipulation. "If this bill goes forward, the US would have the least regulated futures exchanges in the world."

The CFTC has been leading an international initiative to tighten supervision on foreign futures markets following the Sumitomo debacle in the copper markets last year.

Ms Born says her overseas counterparts have been shocked that the US is thinking of discarding its regulatory model. The futures industry meets for its annual conference in Boca Raton on Wednesday.

With the support of the US Treasury and the Federal Reserve Bank, a committee led by senators Richard Lugar, Tom Harkin and Patrick Leahy has proposed restricting the CFTC's oversight to a few agricultural futures contracts and some retail participants. This would allow US futures exchanges to create unregulated markets for "professional" traders – which account for about 85 per cent of the business on Chicago's big exchanges.



Brooksley Born: agency's powers may be weakened

Washington lawyers say Congress has come to the view that big market players in the free-wheeling derivatives business do not need government to protect them.

Mr Alan Greenspan, chairman of the US Federal Reserve, said last month that many aspects of derivatives trading would be best left alone or to bank regulators and the Securities and Exchange Commission.

When Congress last looked at derivatives regulation five years ago, it allowed over-the-counter derivatives, because of their institutional nature, to be exempted from CFTC oversight. It also widened the agency's powers to police listed futures exchanges, a reaction to federal fraud prosecutions of Chicago futures traders in the late 1980s.

Since then, expansion on Chicago's big exchanges has slowed or stopped, while OTC derivatives dealings continue to grow robustly.

While the exchanges are convinced that deregulation will spur new growth, derivatives lawyers are more cautious, saying that a rigorous regulatory environment has been an important marketing tool for the exchanges.

Many end-users, including pension funds and insurance companies that would qualify as "professional" traders, actually like the regulatory safety offered on exchange.

After Sumitomo announced its London Metal Exchange copper trading losses, the New York Mercantile Exchange boasted that such problems could never have happen in its US copper futures market. Nevertheless, it strongly favours the deregulation proposal.

Bank of America courts DE Shaw

By Tracy Corrigan in New York

Bank of America, the third largest US commercial bank, is planning a link with New York-based derivatives specialist DE Shaw, as part of its effort to develop its capital markets business.

According to sources, the link will take the form of an alliance, rather than a joint venture, and Bank of America will not take an equity stake in the company. Bank of America declined to comment.

The bank is struggling to catch up with rivals such as Chase and Citicorp, which have already made substantial inroads into the investment banking area. Although it has a strong syndicated loans business, Bank of America is not a leading competitor in the traditional preserves of investment banks, such as underwriting. Chase and Citicorp have already built up large capital markets businesses, including strong derivatives operations.

DE Shaw, founded in 1988 as a hedge fund, is a privately-owned securities firm specialising in derivative instruments, such as options and equity warrants. According to the Securities Industry Association yearbook, its total equity is just over $600m.

Bank of America, which has said it would consider making an acquisition to develop its product line, has been the subject of a number of bid rumours. Earlier this year, Paine Webber's share price soared after a report, subsequently denied, that the two companies had been in merger discussions.

Many analysts believe recent regulatory changes, allowing commercial banks to derive a greater proportion of earnings from their securities business, coupled with last month's merger of Morgan Stanley and Dean Witter, have increased the pressure on commercial banks to forge alliances.

Philippine shares set to be offered abroad

By Justin Marozzi in Manila

The Philippine Securities and Exchange Commission is set to approve a series of derivatives that would allow foreign investors to buy shares at present limited to local buyers.

Several financial institutions have submitted proposals to the SEC to create derivatives based on the movements of 'A' shares on the Philippine stock exchange. This would effectively allow them to invest in a company without having to pay a premium for 'B' shares. Foreigners are restricted to trading B shares, which generally carry a premium, because they are more liquid, traded in greater volume and limited in numbers.

JP Morgan is believed to have created a derivative which would be linked to the A shares of San Miguel, the food and beverage group.

Over the past week, San Miguel B shares have fallen from a 100 per cent premium over A shares to 65 per cent, closing at the end of last week at 90.5 pesos ($3.45) on fears the SEC is going to approve the new financial instrument.

Mr Perfecto Yasay, chairman of the SEC, said the new derivatives did not contravene the law because ownership remained in local hands and foreigners would not be able to vote the shares.

Only a handful of blue-chip companies, such as Ayala Land, the local real estate group, and Security Bank, retain two forms of share on the bourse. With the liberalisation of capital markets over the past two years some groups have converted their A and B shares into a single listing, but the B shares of those who have not converted dominate the top shares traded by volume. If the derivatives receive SEC approval, it would have far-reaching effects on trading of these shares.

Some foreign bankers have already expressed disapproval of the schemes. "It should not happen," said one. "What cannot be done directly cannot be done indirectly."

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

A tale of two US economies

Let's forget about the question of whether a correction in the US stock market is overdue. Let's even ignore the possibility of an interest rate rise at the meeting of the Federal Reserve open market committee on March 25.

Instead, let's focus on the really interesting question of what follows the correction, if and when it comes. It is here, perhaps, that the divergence between the European and US views of Wall Street's current level is sharpest. To put it in caricature terms, the European view is that the US market is overvalued and must inevitably undergo a protracted adjustment to more realistic levels. The US view is that the market is frothy, and may have got ahead of itself, but that its ebullience is – whatever Mr Alan Greenspan, Fed chairman, may say – at bottom deeply rational. Any correction, therefore, would only be a brief interruption in the progress of the 15-year bull market.

This view is itself a short-term prophylactic against a correction, since it leads investors to buy on weakness. If that proves over-optimistic, of course, the penalty would, ultimately, be more painful. But is it over-optimistic?

Not if you believe the chart shown alongside. It was prepared by the Bank Credit Analyst team in Montreal, a group of analysts which rarely succumb to faddish thinking. They broke the US economy into two sectors: high tech and the rest. Into the former they put investment spending and net trade in information processing equipment and aircraft, some defence investment and consumer spending on computers. These account for about 5½ per cent of real GDP, but have provided almost 40 per cent of GDP growth over the past two years.

The Bank Credit Analyst team writes: "The charts show that the high-tech components of the economy have been growing at a 25 per cent pace, while their prices have been falling at a 10 per cent rate ... On the other hand, the remainder of the economy has been expanding at a modest 1½ per cent rate, which is extremely sluggish by the standards of the past decade." Not surprisingly, inflation in these areas is low and stable.

You might, if you took a positive view of the US outlook, draw two conclusions. First, that there is little serious inflationary risk, since the fast-growing sector is showing falling prices, while elsewhere inflation is held down by weak demand. Second, that something significant is happening in that fast-growing sector – a surge of innovation and knowledge creation which justifies long-term optimism.

The comparison Martin Barnes of Bank Credit Analyst draws is with the quarter-century bull market which followed the second world war. That came to an end, he believes, because of the inexperience of central bankers in controlling the new post-Bretton Woods monetary system. Now, two painful decades later, central bankers are much better at managing the system. And, in the US, skilful monetary management is complemented by a surge of technological innovation and entrepreneurial energy.

Comparing the stock market charts of the post-war bull market with the one that began in 1982, two things stand out. In the second period, the recent straight-line growth of the market is in marked contrast with the bumpier progress of the post-war years. That is the argument for a correction. But the overall expansion of market values in this rally is not out of line with the earlier period – and there is still considerable time to go before the later bull market is as long-lasting as the earlier one. That is the argument for a healthy resumption of growth after any correction.

Today is never quite like yesterday. Not every US company benefiting from the enthusiasm for equities is a high-tech paragon. After any correction, some previous high-flyers mysteriously fail to join the overall recovery.

All these things are true. But the Bank Credit Analyst argument offers an insight into the world beyond the next correction. You do not have to believe it fully to find it helpful. Better, perhaps, to use it as a yardstick for judging the chances of a speedy recovery from the next equity market setback, whenever it comes. If, despite any short-term interest rate or stock-price pain, the high-tech sector continues to be able to combine healthy growth with falling prices, then the chances of a solid share-price recovery from any correction will be markedly increased.

The deciding factor, therefore, is not the Fed chairman's state of mind, but the underlying performance of America's high-technology companies. It's the real economy, stupid.

Total return in local currency to 06/03/97

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.07	0.14	0.13
Month	0.45	0.04	0.26	0.28	0.62	0.49
Year	5.27	0.69	3.35	4.42	9.21	6.18
Bonds 3-5 year						
Week	-0.13	0.07	-0.14	-0.11	-0.75	-0.07
Month	-0.35	0.31	0.23	0.61	-0.85	-0.33
Year	3.87	5.52	7.73	9.87	17.62	7.58
Bonds 7-10 year						
Week	-0.48	0.24	-0.44	-0.60	-1.92	-0.22
Month	-0.94	0.46	0.97	-0.76	-1.70	0.19
Year	2.88	8.15	11.74	13.86	27.15	10.89
Equities						
Week	0.5	-4.3	4.9	2.5	1.1	1.3
Month	2.4	0.8	9.3	5.7	4.4	1.4
Year	24.3	-11.1	38.8	38.5	25.5	20.8

Sources: Cash & Bonds - Lehman Brothers. Equities - FT/S&P Actuaries World Index. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE Compiled By AFX News

Steel losses expected to cut Krupp to DM360m

Krupp, the German steel and engineering group, is expected this week to report pre-tax profits for 1996 of about DM360m ($213m), down on the 1995 figure of DM644m because of steel losses, analysts said. Krupp is likely to have made profits on its stainless steel activities, where it is the world leader, but to have lost money on its other steel products.

The group's other five divisions, ranging from automotive systems to plant engineering, are expected to be profitable, analysts said. The dividend is expected to remain unchanged at DM5.

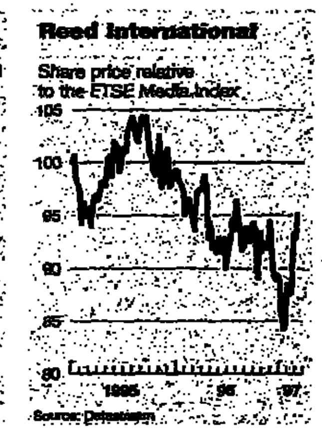
■ Société Générale, one of France's largest banks, is expected to report improved results for 1996 on Wednesday, with analysts forecasting net profit of about FFr4.5bn ($780m) against FFr3.82bn in 1995.

Société Générale said in January that net profits and earnings per share were "sharply higher" in 1996. This, analysts noted, was a more upbeat outlook than the one given by Mr Marc Vienot, chairman, at the time of first-half results in September, when the bank reported a net profit of FFr2.73bn.

Vienot said then that the second half was unlikely to match the performance of the previous period, when earnings were boosted by non-recurring financial gains, stemming mostly from the sale of its shareholdings in other companies.

But analysts now believe that Vienot underestimated the potential for his bank's financial market and international activities to outweigh lingering domestic retail banking weakness.

"When Vienot made those remarks, he had only weak July and August trends to go by. But Société Générale had an exceptionally good fourth quarter, particularly in market activities and business outside France," said a banking analyst at brokers Dupont-Denant, who expects a net profit figure of FFr4.5bn.



■ Générale de Banque, Belgium's biggest bank, is expected to report tomorrow net profits of between BFr14.9bn ($428m) and BFr16bn last year, compared with BFr13.7bn in 1995, according to analysts' forecasts.

Mr Youssef Uriagli of Dewaay, Servais said: "The financial sector is very buoyant, for several reasons. On one hand, the difference between short-term and long-term interest rates boosted income, and the financial markets' good performances pull up income from commissions. On top of that, financial institutions have widely benefited from capital gains, on bonds as well as on shares."

Mr Herman Vanderloos of Vermeulen, Raemdonck expects loans to have increased significantly, and said that, as with other banks, provisions were being made to cover the introduction of the euro. The bank had announced provisions in its half yearly estimate.

■ Enso, the Finnish pulp and paper producer, is expected to report 1996 profit, after financial items, of between FM1.46bn ($292m) and FM1.68bn, down from FM3.52bn a year earlier, according to analysts.

Earnings per share forecasts range between FM4.08 and FM4.50, compared with FM10.52.

As with most other Scandinavian forestry companies, the expected sharp fall in Enso's profits is because of slow economic growth in Europe, which has seriously weakened both prices and demand for most products. Analysts said customer destocking had further worsened the situation.

Enso's report is, however, expected to confirm that a turnround in the forestry business has already started, with improved demand and prices for fine paper leading the recovery.

■ Reed Elsevier, the international information group, is expected to announce a healthy, if unspectacular growth in pre-tax profits on Wednesday when it announces its results for 1996.

Analyst forecasts are close, ranging between Henderson Crosthwaite's £800m ($1.3bn) pre-tax to Merrill Lynch on £810m compared with £723m.

■ Analysts are expecting few surprises from Zeneca's figures tomorrow, not least because the company's trading statement in January pointed them in the direction of pre-tax profits of just over £1bn and earnings per share of about 72p. Both exclude exceptional charges.

Of greater interest will be indications of how sales are going for new launches, especially Accolate, the asthma drug.

■ Orange, the UK mobile phone operator, tomorrow reports its first full-year results since flotation last March. Analysts are expecting a pre-tax loss of about £230m, equivalent to losses of about 21.4p a share, as it continues to invest heavily in its UK network. It is performing to expectations, and is likely to move into operating profit in 1998.

■ Schroders, the last publicly-quoted UK merchant banking group with significant overseas operations, is expected to report on Wednesday pre-tax profits of about £240m for 1996, up from £197.3m.

There are expected to be good contributions from Schroder Wertheim, the US arm, and fund management.

INTERNATIONAL EQUITIES By Judy Dempsey in Jerusalem

Struggle to meet sell-off target

When Mr Benjamin Netanyahu, Israel's prime minister, was elected last May, he unveiled an ambitious economic programme based on privatisation and deregulation. Above all, he said he would raise Shk4bn ($1.2bn) this year from selling off state-owned companies, compared with last year's paltry Shk300m.

Nine months into the job and with nine months left to meet that year-end target, his conservative Likud coalition is still trying to put privatisation firmly on track. The coming weeks will show how wide the gap is between intention and implementation.

There have been some positive signals. Last week, the government offered a 17 per cent stake, worth $200m, in Israel Chemicals to Mr Shaul Eisenberg who in 1995 bought a 24.9 per cent stake of ICL for $231m.

The government also said it would issue tenders to sell between 25 per cent and 69 per cent of Bank Hapoalim, the largest bank. Based on current shareholder equity, the sale could bring in between Shk2bn and Shk5.4bn. A prospectus for Bank Leumi, the second largest bank, will be submitted next month. The plan is to sell 10 per cent on the local market in May.

"It's very important that the government sticks to this programme," said Ms Elise Horowitz, Israel analyst at Lehman Brothers, the US investment bank. "Investors want reassurances that the privatisation process is for real."

But the government's inconsistent track record is cause for continuing scepticism. Only recently, for example, it was forced to postpone its much-touted privatisation of Israel Discount Bank at least until April.

And prospects for a further domestic listing for Bezeq, the state-owned telecommunications network seem in jeopardy. The company is embroiled in a row with the government over the extent of a bonus pay-out to its employees from last year's net income.

As for plans by the Israel Electric Corporation, the state-owned utility, to sell a 20 per cent stake later this year, which could include an international offering, they are likely to meet firm resistance from the unions and the opposition labour party, since IEC is a bastion of labour support and privileges.

Despite the inconsistency and lack of a clear government approach to privatisation, some analysts are prepared to give Mr Netanyahu the benefit of the doubt.

"He says he wants to privatise," said Mr Daniel Carasso from UBS Global Research. "The issue is not whether the government chooses between a domestic or international issue. Privatisation will open up the market, will raise money for modernising facilities and make companies accountable to shareholders."

Timing is crucial. Mr Netanyahu has only nine months left to meet his target. And the Tel Aviv Stock Exchange, which has risen 25 per cent since the beginning of the year, has recovered from the 1994 crash, making it attractive for investors and issuers. But it is unclear if there is enough capital to soak up large listings, such as the banks, or even IEC.

"I think there is an appetite out there," said Mr Keith Phillips, Israel analyst at Société Générale. "But as ever, so much depends on the peace process. If the peace process is on track, and since the economic fundamentals are right, we should see large listings taking place this year. It's up to the government."

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 7 1997 US Dollar Index	% chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	THURSDAY MARCH 6 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	221.84	0.0	204.97	171.00	198.25	186.83	0.6	4.06	221.71	203.89	170.39	198.06	187.53	224.81	188.44	198.44
Austria (24)	184.35	-2.9	170.33	142.10	164.74	164.89	8.3	1.77	185.01	170.14	142.19	165.29	165.22	195.04	174.70	184.50
Belgium (28)	235.38	3.8	218.40	182.21	211.24	206.61	15.3	3.16	237.12	218.07	182.24	211.85	207.31	237.12	203.64	213.81
Brazil (28)	240.48	29.5	222.19	185.37	214.90	468.93	28.4	1.31	238.75	219.55	183.49	213.30	462.63	242.07	147.48	148.72
Canada (114)	201.42	6.1	186.10	155.26	179.99	199.51	5.9	1.85	200.01	183.94	153.72	178.70	197.62	203.24	153.61	155.38
Denmark (33)	368.95	4.3	339.94	282.66	327.92	326.93	15.1	1.35	367.72	338.17	282.81	328.53	327.72	376.09	291.30	289.76
Finland (25)	265.30	8.0	245.12	204.50	237.08	285.63	20.2	1.92	262.23	241.18	201.54	234.28	282.11	266.30	174.47	181.36
France (91)	223.73	4.5	206.72	172.46	199.93	203.31	16.6	2.50	223.05	205.12	171.42	199.27	202.76	223.73	183.67	190.02
Germany (59)	198.79	4.6	183.67	153.23	177.64	177.64	18.7	1.46	201.22	185.05	154.65	179.78	179.78	201.22	164.47	172.22
Hong Kong (59)	486.45	-4.1	449.46	374.98	434.72	483.27	-4.0	3.18	488.56	450.21	376.25	437.38	486.71	514.46	402.63	438.14
Indonesia (27)	241.93	6.0	223.50	186.49	216.20	353.31	7.4	1.50	241.66	222.28	185.75	216.92	355.09	-	-	-
Ireland (16)	333.54	1.4	308.17	257.10	298.06	302.94	10.4	3.11	334.90	307.99	257.39	299.21	302.81	343.35	265.16	265.00
Italy (58)	87.57	4.3	80.91	67.50	78.26	111.35	17.5	1.92	86.05	79.14	66.14	76.88	109.53	98.82	70.01	76.39
Japan (480)	113.89	-11.7	105.27	87.82	101.81	87.82	-7.3	0.89	113.44	104.32	87.18	101.35	87.18	164.68	109.18	148.24
Malaysia (107)	641.05	6.3	582.30	494.14	572.87	612.71	4.4	1.04	642.95	591.28	494.14	574.43	613.07	650.95	512.47	548.83
Mexico (27)	1345.22	10.5	1245.58	1039.25	1204.61	11820.09	12.6	0.93	1350.19	1241.70	1037.69	1206.29	11831.98	1448.02	1046.65	1095.16
Netherland (19)	350.18	4.2	323.55	269.93	312.93	309.39	16.6	2.47	350.74	322.59	269.55	313.36	308.73	354.06	274.35	281.58
New Zealand (14)	88.40	-3.8	81.71	68.17	79.03	80.82	-3.4	4.26	87.93	80.67	67.58	78.04	80.53	96.80	76.94	79.37
Norway (41)	305.01	3.2	281.81	235.11	272.58	287.25	12.1	2.10	304.48	280.01	234.01	272.03	286.78	321.23	235.31	238.85
Philippines (22)	202.14	-0.7	186.76	155.81	180.64	265.16	-0.7	0.85	201.87	185.65	155.15	180.33	264.80	-	-	-
Singapore (43)	418.89	-0.3	386.76	322.67	374.07	278.56	2.2	1.00	418.09	384.48	321.32	373.53	275.77	449.15	371.28	436.57
South Africa (44)	357.38	12.2	330.21	275.48	319.27	348.33	7.0	2.40	359.83	330.74	276.40	321.31	350.42	390.34	301.49	335.96
Spain (35)	212.71	-3.2	196.53	163.96	190.08	234.39	8.2	2.73	208.94	192.15	160.58	186.67	230.11	228.18	164.61	187.31
Sweden (45)	439.78	4.2	406.33	338.99	393.00	500.91	17.5	2.07	437.45	402.30	336.20	390.93	495.75	439.78	326.59	333.63
Switzerland (36)	252.88	8.0	233.65	194.91	225.98	232.79	17.2	1.29	250.79	230.64	192.75	224.07	231.50	254.24	229.38	243.63
Thailand (45)	75.84	-20.8	70.07	58.46	67.77	76.40	-19.9	4.28	73.98	68.03	56.85	66.09	74.57	187.78	73.88	120.80
United Kingdom (212)	283.78	0.2	262.20	218.75	253.60	262.20	8.9	3.73	283.81	261.01	218.12	253.58	261.01	283.81	254.47	224.29
USA (654)	327.15	8.4	302.27	252.18	292.35	327.15	8.4	1.83	324.67	298.58	249.52	290.05	324.67	331.54	254.78	267.16
Americas (823)	298.57	8.5	276.78	230.91	267.70	282.13	8.5	1.82	297.53	273.42	228.51	265.84	280.21	303.45	233.09	243.36
Europe (725)	248.07	2.7	227.36	189.68	219.90	230.28	12.6	2.64	243.61	229.06	188.22	219.62	229.69	248.07	201.65	209.63
Nordic (150)	378.69	4.7	350.81	292.68	339.31	373.08	17.0	1.94	377.90	347.54	290.44	337.63	370.17	378.69	292.52	288.76
Pacific Basin (873)	135.33	-9.0	125.04	104.31	120.93	103.36	-5.6	1.40	134.98	124.13	103.74	120.59	102.91	177.01	131.50	150.39
Euro-Pacific (1598)	181.47	-2.7	167.67	139.88	162.17	151.26	4.1	2.10	181.16	166.61	139.23	161.86	150.72	191.51	176.40	176.59
North America (768)	319.55	8.3	295.24	246.31	285.56	318.74	8.3	1.84	317.13	291.65	243.73	283.53	316.29	323.89	248.85	260.25
Europe Ex. UK (513)	220.41	4.1	203.65	169.90	196.97	208.10	16.1	2.02	220.04	202.36	169.11	196.59	207.74	220.41	183.26	189.29
Pacific Ex. Japan (393)	313.05	-0.7	289.25	241.31	279.76	270.45	-0.6	2.64	313.31	288.13	240.79	280.26	270.30	334.09	274.95	280.43
World Ex. US (1811)	185.38	-1.8	171.29	142.88	165.64	157.51	4.5	2.09	185.00	170.15	142.20	165.50	157.02	193.47	177.71	180.57
World Ex. UK (2253)	225.83	5.1	208.36	173.85	201.54	205.66	6.2	1.77	224.39	206.36	172.45	200.47	205.66	225.83	190.62	192.20
World Ex. Japan (1986)	288.91	5.9	267.58	223.47	259.09	280.80	9.1	2.16	288.58	265.38	221.79	257.82	279.34	291.77	233.10	241.25
The World Index (2466)	230.61	2.9	212.98	177.68	205.99	208.24	6.8	1.98	229.46	211.02	176.35	205.00	206.10	230.38	200.32	207.69

COMPANIES AND FINANCE: UK

Conglomerate may also dispose of its African sugar interests ahead of demerger

Lonrho considers hotel break-up

By Scheherazade Daneshkhu and Tim Burt

Lonrho, the UK conglomerate, is considering a break-up of its Princess chain of hotels, and the sale of its African sugar interests as part of the forthcoming demerger.

The company wants to unlock the value in its hotel and sugar operations before concentrating on its core mining interests. At the weekend it was revealed that Lonrho was in discussions with more than one buyer for its 10 luxury resort-style hotels.

Prince Alwaleed bin Talal bin Abdulaziz al Saud, the wealthy Saudi investor who has a stake in Euro Disney, is still the preferred bidder for most of the chain. But at least three hotels – and possibly half the chain – may be sold to others.

Lonrho was also said to be considering selling or demerging its African sugar operations, which last year contributed operating profits of £38m on sales of £130m ($225m). Tate & Lyle, one of the world's largest sweetener companies, was named by analysts as the most likely bidder, although the company would not comment on whether discussions were under way.

Prince Alwaleed hopes to acquire several Princess hotels for Fairmont, the San Francisco-based hotel group in which he holds a 50 per cent stake.

In the year to September 30, Princess hotels bolstered Lonrho's figures by contributing profits of £21m on sales of £187m.

The chain – based in the US, Barbados, Mexico, Bermuda and the Bahamas – has been on the market since last September, when Lonrho abandoned plans for a joint £700m flotation with its UK Metropole hotels.

Negotiations between Lonrho and Prince Alwaleed, initially for a £350m sale, appear to have been bogged down over tax and legal issues in five jurisdictions, and the prince's desire to buy only some of the 10 properties.

It is believed Prince Alwaleed, a nephew of King Fahd, is averse to buying the two casino-based Bahamas hotels because of Islamic strictures against gambling.

Lonrho is also thought to be in negotiations with a separate buyer for the Palm Springs Marquis hotel in California which it manages under a franchise from Holiday Inn. It was planning to sell the hotel at the time of the Princess Metropole flotation due to poor trading and its dependence on the local economy rather than national business.

A question mark also hangs over the two Barbados hotels, in which Mr Michael Pemberton, an English developer, has a 51 per cent stake.

Reuter

Prince Alwaleed: preferred bidder for most of Princess chain

Lolly licking goodness in a tube

By Maggie Urry

Treats, a UK ice lolly group, has signed a licensing deal with SmithKline Beecham, makers of Ribena, the blackcurrant-flavoured vitamin-C laced children's drink, to use the brand for lollies.

The Ribena lolly will arrive in UK shops at the end of April, and will be produced throughout the summer.

Mr David Durie, Treats' marketing manager, said the group has begun talking to retailers about the Ribena lolly, which was "going down a storm".

The launch is important for Treats, which floated last June at 174p only to suffer a halving of the share price when poor summer weather dented 1996 profit figures. The company is expected to show a drop in profits to £1.4m from £2.4m ($3.9m) in 1995.

It is the first time a branded drink has been used in a frozen product, although examples of extensions of confectionery into ice cream abound.

Mr Durie said the product had the "genuine Ribena taste" and a good texture which consumers could not reproduce at home simply by freezing the drink.

The Ribena lolly comes in a tube rather than on a stick.

The tube means that if a child is a slow eater, any defrosted lolly is collected rather than dribbled down the T-shirt and can be drunk at the end.

Treats makes Zap and Striker lollies, but Mr Durie said, "we needed a big brand in the portfolio". Treats selected the 50 year-old Ribena brand and approached SmithKline Beecham after market research suggested extending the brand into the ice lolly market should work.

The Ribena lolly is expected to appeal to the same target market – 6 to 14 year olds – as Treats' existing products.

If the blackcurrant Ribena lolly sells well other Ribena flavours could be introduced – or even a low-sugar version which might salve mothers' consciences about putting yet more sugar in children's mouths.

BT venture wins first German satellite order

By Alan Cane

Less than 10 months before the opening of telecommunications markets across Europe, British Telecommunications has won its first big satellite communications order in Germany.

Viag Interkom, its joint venture with Viag, the German industrial group, has been chosen by the German subsidiary of Japan's Nissan motor group to set up a countrywide voice and data communications network.

The idea is to link Nissan dealers through the satellite system, so they will be able to communicate directly with Nissan's headquarters in Neuss, near Düsseldorf.

Some 400 sites will be linked in the first phase using VSAT (very small aperture terminal) technology.

The aim is to extend the network to a further 750 locations and eventually across Europe.

The value of the contract is an initial DM3.5m (£1.27m) a year, growing to DM10.5m after the first phase. It is a significant win for Viag Interkom against Deutsche Telekom.

Under current regulations, it is able to offer voice and data services only within companies. It expects to be awarded a licence to offer voice and data services over the public switched network after market liberalisation on January 1 1998.

A spokesman for Nissan said: "With VSAT from Viag Interkom, we will be able to provide high performance and innovative dealer communications. Program and data updates will in future be available to all dealers simultaneously within seconds."

Communications with the UK will also take place via the satellite. There is a high speed data connection between London and Nissan's Neuss headquarters, as well as the Nissan European computer centre in Sunderland.

VSAT is increasingly being used to provide two-way communications to businesses. It has the advantage of being both quicker to install and cheaper than conventional terrestrial networks.

BOC in Indonesian deal to provide on-site utility

By Jenny Luesby

BOC gases will today announce its largest ever contract, a £70m ($113m) investment in Indonesia, as the first big prize from a shift into utility package deals.

The industrial gases group already supplies about 15 per cent of its products from production plants on customers' own sites.

It now plans to offer a much wider range of on-site utilities for manufacturers who want to increase their out sourcing.

In Indonesia, BOC will provide electricity and steam, as well as 1,000 tonnes a day of oxygen, to a new copper smelter and refinery.

The copper smelter, being built in East Java, is a joint venture between Mitsubishi and Freeport Indonesia.

BOC will supply all three utilities under long-term take-or-pay contracts.

It expects the utilities to come on stream in the second half of next year, and says they will lift group sales in south-east Asia by 8 per cent.

The group will build an air separation plant, to supply the oxygen, with an Indonesian partner, Garema, and run the power plant, to be built by Black and Veatch of the US, as a separate subsidiary.

Meanwhile, the group is holding talks with several other companies over utility package deals, which could include water treatment facilities, as well as power generation and industrial gas supplies.

The diversification is part of a wider thrust to increase the proportion of its business produced on customers' own sites.

BOC, which is the world's second largest producer of industrial gases, has traditionally lagged behind its competitors in this area. Yet on-site production carries higher than average returns within the industrial gases business.

So far, the push has seen the group unveil a string of on-site investments in the US, which will lift capital spending by one-third this year, to about £600m.

Combined utility schemes offer the promise of upgrading returns even further, the group said.

In East Java, the company will use waste steam from the copper smelter to generate its electricity.

Undervalued Assets gains control of Pilot trust

By Michael Lindemann

Undervalued Assets Trust will today announce that it has won control of Pilot Investment Trust, the beleaguered small companies trust which has admitted that its recent performance has been "poor".

Mr Colin McLean, UAT's director, said that the £48.1m ($78.4m) all-paper bid had won acceptances from 51.6 per cent of shareholders. UAT had bought Pilot warrants on Friday to extend its holdings.

UAT will offer seven UAT shares for every 9 Pilot shares. UAT closed at 162½p on Friday, valuing Pilot's shares at 126¼p. Pilot rose 1p to at 127¼p.

Widespread trading in Pilot was evident in the hours before UAT's bid closed at 3pm on Friday, but Mr McLean declined to say which of the institutions had voted in favour of UAT.

UAT had letters of intent from 28.8 per cent of Pilot's shareholders when it launched its bid in February. These included the Bank of England Pension Fund.

UAT's offer will remain open "until further notice", Mr McLean said, in order to allow other shareholders to accept. "Then it is intended to bring Pilot into line with UAT as quickly as possible. The plan is to change Pilot's managers."

Pilot's investments are managed by Rutherford Asset Management, which was proposing last week to restructure Pilot so that some shareholders could liquidate their assets.

Rutherford suggested investors either vote to turn Pilot into an open ended investment company with an investment policy similar to Pilot's or opt for shares or units in a new company which would dispose of the investments shareholders wanted to liquidate.

NEWS DIGEST

Wassall to float General Cable

Wassall, the industrial conglomerate, has filed documents with the Securities and Exchange Commission in New York to prepare for the flotation of General Cable, its US-based copper wire and cable products subsidiary. The company is expected to give further details today.

Analysts say the flotation could be worth between $600m and $700m. Wassall acquired General Cable in 1994 for £96m, and has overseen an improvement in the company's fortunes since then.

Last year, General Cable accounted for the lion's share of Wassall's profits. In the first half of 1996, General Cable recorded a 54 per cent rise in operating profits, to £17.9m. Its sales were £345.5m in the six months to June 30, against £497m for the group as a whole. The improvement came despite a fall in copper prices hitting profits.

In 1996, General Cable saw a rise in operating profits to £31.6m, on sales up 18 per cent at £671.7m.

The subsidiary manufactures household wiring and telecoms cables. In January, General Cable formed a joint venture with SpecTran Corporation in the US, to manufacture and market fibre optic cable. General Cable was to invest about $6.3m cash in the venture. *Richard Adams*

Technology VCT planned

Mr Lucius Cary, the founder of "business angel" investing in the UK, is planning to raise a new fund to invest in technology start-up companies. The Oxford Technology Venture Capital Trust will be managed in association with Larpent Newton, part of life assurance company, Friends Provident.

Mr Lucius Cary founded and ran Venture Capital Report (VCR), the most successful "business angel" network in the UK. VCR aimed to solve the problem faced by small businesses trying to raise between £100,000 and £1m – too much to borrow from a bank but too little to interest traditional venture capitalists – by bringing them to the attention of angels. The new fund will target the same types of businesses.

It will make investments of between £100,000 and £500,000, but will consider investments as low as £20,000. It will concentrate on technological start-up companies in the Oxfordshire area. *Roger Taylor*

Prism names finance director

Mr Bob Holmes, finance director of Stena Line, the ferry company, will become finance director of Prism Rail, the Aim-listed train operator.

Mr Holmes, 44, joined Sea Containers shortly before it bought Sealink, the former British Rail ferry company. Sealink was sold to Stena to 1991. In October, he was one of three Stena executives to join the board of P&O Stena Line, the merged Channel ferry company, 60 per cent owned by P&O.

Prism, capitalised at £82m, operates four rail franchises. Prism has made two rights issues since listing on Aim last May – in December it raised £12m to fund the purchase of West Anglia Great Northern. *Michael Lindemann*

Brake Bros acquisition

Brake Bros, the supplier to the catering industry, has bought Dairyfresh Desserts, based in Torquay, Devon, for an undisclosed sum.

Dairyfresh had pre-tax profits of £235,000 on sales of £4.5m in the year to November 30. Net assets at the year-end were £1.1m. Dairyfresh specialises in sponges and traditional puddings.

■ ARGENT GROUP, has sold two distribution units at Didcot and Bicester to the British Telecom Pension Scheme for £38m ($62m) reflecting a yield of 7.3 per cent.

■ BULA RESOURCES has reached agreement with Russian Corporation International. Main benefits for Bula are that all litigation between the parties has been terminated.

■ BUNZL, the paper and plastics group, has continued its US expansion with the acquisition of Kenco Sales, a disposables redistribution business based in Portland, Oregon. The business had sales of $13m in 1996 and assets acquired are estimated at $900,000.

■ GRAFTON has, through a subsidiary, entered a development agreement with H.I. Virgin Resorts for the construction of a hotel in Dublin for I£6.5m ($10.8m).

MARKETS: This Week

EMERGING MARKETS

Indian bull set to charge 4,500

When Mr P Chidambaram, India's finance minister, unveiled the country's 1997–98 budget at the end of last month, cheers broke out in Bombay dealing rooms.

The cheers have barely stopped since in reaction to a budget which has, in one bold step, turned around market sentiment on the subcontinent.

The market's most prominent indicator, the BSE-30 index, has surged 11 per cent to 3,876 points since the budget statement and suddenly a once pervasive investor gloom has been lifted.

Brokers say the budget took the market by surprise with aggressive tax and tariff cuts aimed at spurring economic growth to pay for higher social spending.

The budget also contained a host of market-friendly measures, such as ending double taxation of dividends, allowing share buy-backs and raising the ceiling on foreign institutional investment in Indian companies from 24 to 30 per cent.

"No-one expected the budget to be as dramatic," said Mr Vikash Saraf, head of research at SSKI Securities.

Many foreign investors remain sceptical, however, raising concerns about the capacity of India's infrastructure to cope with growth, the inflationary impact and whether revenue increases will be as strong as forecast. There also remain doubts about the political will of the government to pursue difficult economic reforms.

Even among foreign investors, though, there has been a palpable mood shift amid expectations that the budget will spur a recovery in corporate earnings in 1997–98 and reduce uncertainty surrounding the United Front government.

"I think history will be kind to this budget," said Mr Mark Baughan, head of research at brokers W.I. Carr India. "It is a gamble but a worthy gamble and the more you examine the figures in the budget, the more they seem conservative."

The question for foreign investors now is how much upside is left in the market.

The post-budget surge capped a remarkable turnaround in the Indian share market in which the BSE-30 Index has risen by 43 per cent from a three-year low early in December.

The low was struck amid mounting pessimism about the outlook for the Indian economy, the stability of the government, slowing corporate earnings and the pace of economic reforms.

Leading broking houses, such as ING Barings, had put out research warning of an imminent economic crisis and the talk in the market was of how low the index could go. In the classic tradition of the bull runs starting just as sentiment reaches its darkest hour, the share market promptly surged.

Many foreign investors missed out on the rally, however, as they waited to assess the budget. Instead, local traders have driven up prices.

Although there is much speculation about a continued surge in the market to around 5,000, most brokers predict the bourse will rise a further 10 to 15 per cent to about 4,500 points.

This rise is expected to be spurred by demand from foreign institutional investors, the so-called FIIs. The net investment by FIIs in January and February was only $176m, compared with a total of $3.17bn for 1996.

"If the allocations to the Indian market remain the same as in 1996, there will have be a substantial increase in inflows," says Mr Sriram Srinivas, strategist at Lloyds Securities.

For foreign investors, brokers say the Indian market also still looks attractive, with a sharp rebound in corporate earnings expected in 1997–98.

Mr Baughan says that while 1997–98 corporate earnings growth in India is expected to be one of the highest in Asian markets at 24 to 25 per cent, it is priced on a relatively low price-earnings multiple. W.I. Carr estimates the prospective price-earnings ratio for India to be 11.1 in 1997–98, compared with 14.3 in the Philippines, 14.4 in Indonesia, 17 in Malaysia, 27 in Taiwan, 9 in Thailand and 11.6 in Hong Kong.

Pre-budget, many brokers argued that India was cheap but deservedly so because of a range of negative factors, many of which persist. Among them is a lack of liquidity in most stocks, making it difficult for foreign investors to pick up large parcels of scrip.

Brokers say the "trust factor" also should not be underestimated. Many foreign brokers say there are very few companies even within the Top 100 Indian firms that they "trust".

Another factor is the losses that many retail investors are still sitting on from the last bull-run, which ended in 1994. The pick-up in the market may tempt many of them to crystallise losses.

In addition, a continuing supply of paper in a capital-hungry country such as India may restrain prolonged rallies. The government alone has a large backlog of partial-privatisation issues.

Mr Anand Tandon, director at brokers InvestTrust, says that all such negative factors, however, are now being discounted. "Suddenly, everyone does not want to hear about the bad news."

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	07/03/97	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (449)	176.94	−0.69	−0.59	−0.50	+2.95	+1.702	+10.51
Latin America							
Argentina (22)	116.48	−1.33	−1.13	+0.65	+0.56	+9.35	+8.73
Brazil (24)	332.27	+8.94	+2.76	+27.32	+8.96	+71.24	+27.29
Chile (16)	191.61	−3.62	−1.65	+6.86	+3.71	+29.16	+17.95
Colombia (13)	219.56	+4.55	+2.11	+10.70	+5.12	+45.86	+26.41
Mexico (27)	92.73	−0.95	−1.01	+2.55	+2.83	11.06	+13.54
Peru (12)	1,204.95	+36.16	+3.09	+57.61	+5.02	+197.73	+19.63
Venezuela (6)	61.43	−5.12	−7.70	+0.34	+0.56	−0.75	−1.21
Latin America (119)	171.27	+1.10	+0.65	+8.78	+5.41	+27.77	+19.35
Europe							
Czech Rep.(14)	106.51	−6.61	−5.84	−8.84	−7.66	+2.24	+2.14
Greece (20)	151.52	−1.58	−1.03	+14.69	+10.73	+39.22	+34.92
Poland (25)	383.84	−9.92	−2.52	−15.72	−3.93	+40.09	+11.66
Portugal (16)	165.44	+1.77	+1.08	−2.79	−1.66	+19.26	+13.18
South Africa (30)	144.63	−1.29	−0.88	+2.84	+2.00	+14.74	+11.35
Turkey (27)	157.89	−21.37	−11.92	−19.41	−10.95	+32.84	+26.27
Europe (134	134.82	−2.84	−2.07	−0.11	−0.08	+16.48	+13.93
Asia							
China (27)	55.65	−0.48	−0.85	+0.46	+0.84	−0.83	−1.48
Indonesia (30)	160.67	−4.55	−2.75	−9.16	−5.40	+4.24	+2.71
Korea (23)	79.48	−1.81	−2.22	−8.51	−9.67	−1.74	−2.14
Malaysia (24)	277.02	−3.24	−1.16	−2.65	−0.95	−3.40	−1.21
Pakistan (13)	70.75	−2.75	−3.74	−9.26	−11.58	−12.29	+21.03
Philippines (16)	322.95	−6.16	−1.87	−10.88	−3.26	+9.16	+2.92
Taiwan (31)	205.76	+4.78	+2.38	+12.78	+6.62	+20.34	+10.97
Thailand (29)	128.80	−7.31	−5.37	−8.99	−6.52	−26.36	−16.99
Asia (193)	220.81	−1.98	−0.89	−2.17	−0.97	+3.24	+1.49

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

SYNDICATED LOANS

US investment banks 'in for the long haul'

US investment banks' efforts to gain a foothold in the European syndicated lending market are bearing fruit – which has got some local commercial bankers worried.

In an already highly competitive environment, where banks' ample liquidity has squeezed returns on commercial bank loans close to record lows over the last two years, the last thing European banks want is more rivals.

Their worst fears were confirmed in late January when US investment bank Merrill Lynch was asked to arrange and underwrite the £1.25bn financing for the £1.5bn bid by US utilities American Electric Power and the Public Service Company of Colorado for Yorkshire Electricity. Merrill was also acting as adviser to the bidders.

While some commercial bankers were piqued to see this lucrative mandate go to a relative newcomer – and there was even talk by some bankers of boycotting the deal – the broad reaction to the appointment has been one of realism.

"Of course, anyone who enters our market and is successful represents a threat – but sticking your head in the sand won't make them go away," said one UK banker.

"If the likes of Merrill Lynch and Goldman Sachs are dedicating serious resources to this sector, that's a good sign for the whole industry," says a UK banker. "They wouldn't invest in a dying market."

On an even more conciliatory note, one official at a large European commercial bank says: "We've invaded their territory – the securities business – so why shouldn't they encroach on our turf? I only hope they'll act in a professional manner and show an understanding of the banking market."

This is likely, since Merrill and Goldman, the two most active banks in this area, have hired dozens of experienced commercial bankers to mastermind their thrust into the lending business. Moreover, while they still lag behind in the European loans league tables, they have gained significant experience in the US market in recent years and are rapidly catching up in Europe.

Another worry some commercial bankers and borrowers harbour is that investment banks, with their trading mentality and leaner balance sheets, won't make a long-term commitment to their deals.

"One of the fears is that they'll arrange the transaction and walk away with the fees without putting their own balance sheets on the line," says a UK banker.

However, increasingly they seem to be putting their money where their mouths are. "We have a policy of holding on to meaningful stakes, if nothing else for the sake of our client relationships," says Mr Kevin Cox, co-head of global leveraged finance at Merrill Lynch.

Indeed, many commercial banks are themselves coming round to the view that it may be useful to shed some loans tying up their balance sheets. For example, National Westminster Bank last autumn offloaded $5bn of corporate loans by transforming them into securities sold to international investors.

"Commercial and investment banks are becoming more like each other with respect to more active loan portfolio management," says Mr Christopher Cooke of the European loan syndications and trading desk at Goldman Sachs. "It's not so much a clash of cultures as a process of convergence."

A new initiative to develop a secondary loan market in London under the auspices of the Loan Markets Association indicates further moves towards a more liquid and flexible market.

The development of a secondary loan market would favour US investment banks that have a long-standing expertise in loan trading and strong placement capabilities with specialist high-yield debt funds. While such an investor base is still underdeveloped in Europe, dealers say demand for high-yielding assets is developing as many better quality debt instruments pay ever-shrinking returns.

Goldman Sachs is taking advantage of this trend with a jumbo leveraged buy-out facility in four tranches, estimated to total in excess of FFr3bn, for the Elis Group, which it launched into syndication last Friday as lead arranger. Two tranches will be syndicated to banks, but the other two will be placed primarily with institutions as so-called amortisation extended loans, or AXELs, with a longer average life and a degree of call protection favoured by insurers and asset managers.

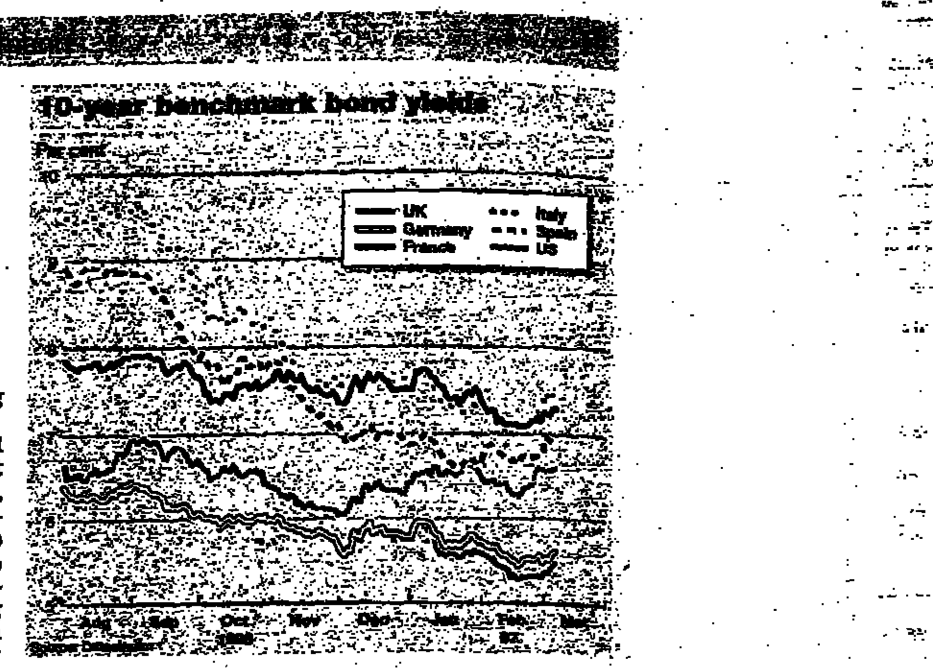
This transaction highlights the sorts of deals US investment banks favour most: structured financings for mergers and acquisitions, LBOs, MBOs, tax-driven deals or project financings.

"Rather than the plain vanilla, lower-margin loans business, we like to focus on more complex transactions where we can add value," says Merrill's Mr Cox.

The question remains whether the investment banks will stay with the market if it suffers a downturn. But the US investment banks are stressing their commitment. "We're in the loan syndications and trading market for the long term – this is a very important strategic business for the firm," says Goldman's Mr Cooke.

Mr Cox echoes this sentiment. "We don't view this business as opportunity-driven, but as a component of our overall strategy of providing our clients with an integrated solution. This is a long-term effort."

10-year benchmark bond yields



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.10	[illegible]	[illegible]
Overnight	[illegible]	[illegible]	3.07	3.12	[illegible]	[illegible]
Three month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ten year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
L-Bank‡	400	Mar 2000	5.71	99.13	5.931	-	Yamaichi Intl.(Europe)
Irish Permanent Treas. 1997	[illegible]	[illegible]	[illegible]	[illegible]	-	-	UBS
Irish Permanent Treas. 2	[illegible]	[illegible]	[illegible]	[illegible]	-	-	UBS
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-MARKS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FRENCH FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	100.008	-	-	[illegible]
STERLING							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ITALIAN LIRE							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GUILDERS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIAN DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LUXEMBOURG FRANCS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PESETAS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CANADIAN DOLLARS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECUS							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SOUTH AFRICAN RAND							
World Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CZECH KORUNA							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Final terms, non-callable unless stated. [illegible]

MARKETS: This Week

NEW YORK

Last week's testimony by Federal Reserve chairman Mr Alan Greenspan may have left the financial markets confused about whether he really believes stocks are overvalued. But Mr Greenspan left no doubt he is ready to raise interest rates at any sign of trouble.

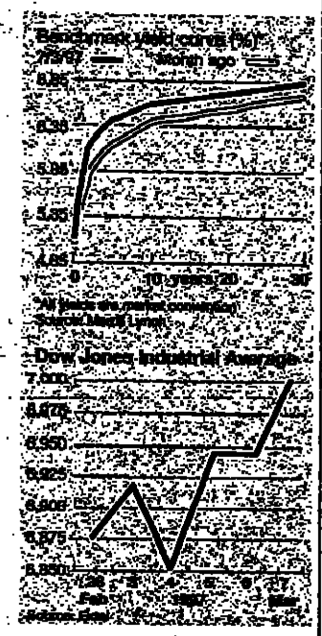
The stock market chose to view his latest comments – for example, that if earnings estimates prove correct, the market does not look overvalued – as a slight climb-down from his stance the previous week.

With the Humphrey-Hawkins testimony out of the way, the markets will this week focus on a stream of economic data, including the Fed's Beige Book on Wednesday, followed by February retail sales, producer prices and capacity utilisation.

Analysts and traders will be looking for signs of sufficient inflationary pressure in the economy to prompt a pre-emptive strike by the Federal Reserve, with a growing number now convinced such a move will come sooner rather than later. Any sign of rising inflation could be met with a rise in interest rates at the next meeting of Fed officials at the end of this month.

However, the bond market took some comfort from last Friday's February jobs data. Although non-farm payrolls rose 339,000, after a 247,000 rise in January, the market was relieved by the apparent lack of wage inflation, despite some signs of a strengthening economy.

Among this week's data, producer prices, due on Friday, are likely to be unchanged, according to an MMS International survey. This could provide comfort on the inflationary outlook, but less than January's 0.3 per cent decline.



LONDON By Philip Coggan

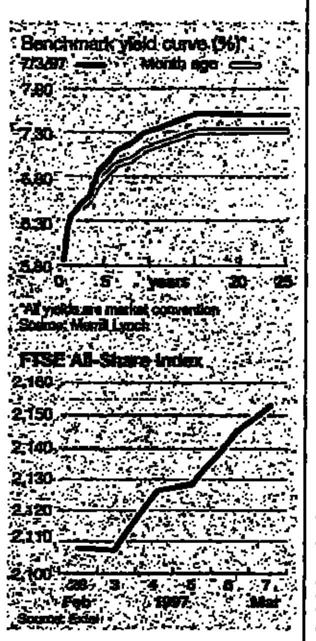
The UK market chalked up another set of all-time highs last week, as a rebound on Wall Street combined with a generally benign domestic environment. The strength of institutional liquidity seems to have been supporting the market, with investors forced to "catch up" and buy stocks as the FTSE 100 index surges past the end-year forecasts of even relatively optimistic analysts.

Producer prices numbers today and industrial production and manufacturing output figures on Wednesday will provide some clues as to the state of the economy and of inflationary pressures, but interest rates are still universally expected to stay on hold until after the general election, probably on May 1. Labour's lead in the opinion polls may be widening, but investors so far seem unconcerned.

Furthermore, Mr John Shepperd, chief economist of Yamaichi International (Europe), says that "while most analysts still expect a post-election rise, a note of optimism is creeping in. The ultimate extent of the increase may be less than had been previously feared".

The results season continues, having done little so far to alter most peoples' views of the market. This week, as well as figures from corporate giants such as Reed International and Zeneca, there are a host of reports from mid-ranking companies such as Harrisons & Crosfield, IMI and Laporte.

The strength of sterling still seems to be the main factor knocking back corporate profits, although last week's report of a sales slowdown at MFI may indicate that the housing market is not as buoyant as many expected.



FRANKFURT By Richard Adams

Better domestic economic figures and the continuing pull of Wall Street helped the German stock market reach a succession of higher levels last week. The DAX index ended above 3,400, aided by buoyant retailing performances.

Last week's figures showed clearly that German construction collapsed at the start of the year, while manufacturing was boosted by the D-Mark's weakness and export demand.

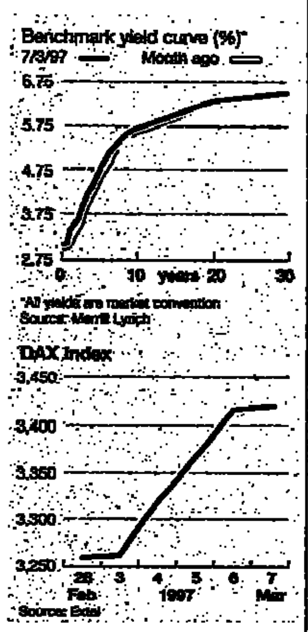
The DAX may maintain its momentum, with today's retail sales volumes data for January likely to show a recovery from the weak performance of December.

Today also sees the launch of the Deutsche Börse's Neuer Markt (new market), aimed at companies in rapid growth sectors. The börse hopes 20 companies can be listed in the first year.

The Neuer Markt's structure, with domestic and foreign banks and investment houses combining market-making, research and advice, is designed to promote liquidity and stimulate investor interest.

The current level of the D-Mark against the dollar has led analysts to assume a rate cut remains off the Bundesbank's agenda, and to expect the yield curve to flatten in the course of the month. On Wednesday, DM2bn of Bobl S121 paper are to be issued, maturing in November 2001.

The Bundesbank is due to announce the federal government's issuance calendar for the second quarter. Current low yields may lead the finance ministry towards issues of longer maturity. The federal funding programme for 1997 is already well advanced, with DM46bn (about 25 per cent) of debt already issued.



TOKYO By Bethan Hutton

Both stocks and bonds failed to break out of recent ranges last week, and observers say more of the same is likely this week.

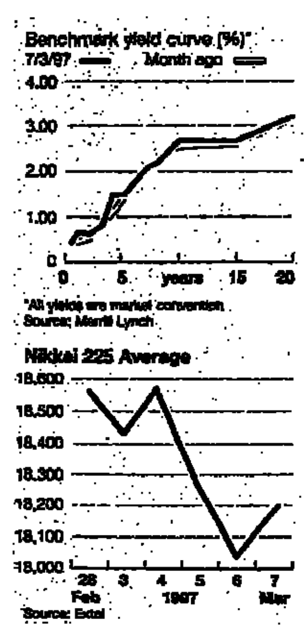
Stocks recovered quickly on Friday from news that Nomura Securities was being investigated for illegal share transactions linked to *sokaiya* gangsters. This seems to indicate that there is still support when the Nikkei dips below 18,000.

However, analysts say upward movement is likely to be capped at a fairly low level for most of this month, as higher prices prompt selling from institutions hoping to book profits before the financial year-end.

On Friday, the yield on the key long-term Japanese government bond briefly equalled the all-time low of 2.335 per cent reached last December, but later rebounded to 2.355 per cent. This was after news that the usual rush of municipal issues in the March-May period will be smaller than during the same period last year. "There is very little fundamental impetus in the bond market," said Mr Cameron Umetsu, senior economist at UBS Securities in Tokyo.

Fourth-quarter GDP figures should be released this week, but they may be ignored by the bond market, which has been attributing positive retail and production statistics to front-loading ahead of the April 1 increase in consumption tax. The market is only likely to react if strong figures continue into the new financial year.

"We do feel that the big risk for the JGB market on a six-month or nine-month view is the potential for a growth surprise – the numbers could be better than expected after the tax hike," Mr Umetsu said.



COMMODITIES

Copper seen close to peak

Copper, which continued its volatile run on the London Metal Exchange last week, is likely to be the focus of attention again this week.

Prices for three-month delivery fell to close afternoon "kerb" trading at $2,290 a tonne on Friday – down $13 from Thursday and $55 from a nine-month high of $2,445 earlier in the day.

Much of the debate over copper is dominated by the Chinese and their potential to make significant purchases, principally to replenish strategic stockpiles.

Analysts say suggestions that the Chinese would re-enter the market after the Lunar New Year have been responsible in part for copper's recent rises.

However, Mr Martin Squires, analyst at Rudolf Wolff, said he believed the market had talked itself up in anticipation of further Chinese buying. It was now "likely to be caught long and wrong, as the Chinese wait for lower prices".

He said the Chinese "have been noted by their absence" since their new year. "This should, however, not be too surprising considering that in the months preceding, they were reported to have been good buyers, and therefore have already to an extent rebuilt some of their depleted stocks.

"With prices considerably higher than when they last entered the market, they could again draw on their strategic stockpile, until prices once again settle down – as they have been the main factor behind the recent market strength."

"Therefore . . . we feel that copper is currently teetering on the peak of its current rally and is likely to retrace back to test underlying support at $2,300–$2,313 a tonne and below," he added.

Analysts at Merrill Lynch agreed that China would only be buyers of copper on price weakness. They estimate that copper will trade at between $2,000 and $2,500 a tonne over this month and next. "It is conceivable that China's need for copper will make $2,204 a tonne seem 'cheap' in the next month or two," they added.

OTHER MARKETS Compiled by Jeffrey Brown

European bourses start this week at record levels, and with the dollar a firm "buy" in the foreign exchanges, brokers remain relaxed about the immediate outlook.

PARIS

There appears to be no stopping Paris. After a week of non-stop push into new high ground, the leading CAC-40 index has successfully punched through the 2,700 level to extend its gains this year to almost 17 per cent.

Solid earnings reports and another round of speculation over takeovers and corporate restructurings kept sentiment upbeat, but for the most part the main drive to shares came from the strength of the dollar.

Hopes for monetary tightening by the Federal Reserve have been supplying strong upward momentum for the US currency, and a number of brokers last week upgraded their dollar estimates.

UBS, for example, lifted its peak rate forecast against the D-Mark to DM1.80 and for the yen to Y132.

Over the last week a number of bourse ratios were stretched ever tighter. The 1996 earnings ratio for French shares is now the highest in Europe, at nearly 28. This compares with less than 20 for Dutch equities and barely 17 for the London stock market, and for all the upward potency of the market in recent sessions there remain worries about short-term bouts of profit-taking.

Société Générale and cement leader Lafarge head this week's results list. Renault looks likely to remain a speculative play, given the political storm thrown up – at home and outside France – by the motor giant's plans to close a plant in Belgium.

So does Bancaire, where speculation about new ownership for the financial group, 42 per cent owned by Paribas, remained deeply entrenched in spite of a sharp setback for the shares on Friday.

SocGen and Lafarge produce annual results on Wednesday. Elf Aquitaine holds an analysts meeting on the same day.

AMSTERDAM

The strength of the dollar has been fully reflected in Amsterdam in recent sessions, in part as a result of good demand for the Dutch international stocks.

This week the publishing houses move back into the spotlight. The recent speculative flurry linking Elsevier with Wolters Kluwer and Reuters was described as "sheer nonsense" by most analysts. The sector now gets a chance to display its fundamental paces. Elsevier reports annual results on Wednesday, and Kluwer on Friday.

Brewing trends will also get an airing. Heineken puts out results on Friday and its smaller rival Grolsch, which owns Ruddles in the UK, weighs in two days earlier.

HONG KONG

The US will continue to set the tone for Hong Kong with the market getting to grips today with the latest US employment data (released overnight on Friday).

The Hong Kong dollar is pegged to the US currency, so US interest rate influences are closely watched in the colony.

The market closed on Friday on a weaker note, with the benchmark Hang Seng Index easing 79.01 to 13,337.35, although turnover remained buoyant.

Property stocks have been hurt in the recent sell-off. Recent comments by two leading property tycoons that residential prices were too high did not help.

But there has been no stopping investors' appetite for "red chips", or China plays.

The latest entrant to the red chips sector surged to a premium of more than 100 per cent on Friday. Shum Yip Investments, which floated at HK$1.85, closed at HK$4.50.

CURRENCIES

Dollar's ascendancy to be tested by data

Traders will try to decide this week whether the dollar's 1997 surge is near its end. Late last week the currency struggled to make headway against the D-Mark and yen. Mr Chris Tinker, analyst at Standard Chartered Bank in London, said the market was becoming more "equivocal" on the dollar.

More reports of strong US economic data should support the currency this week, pointing to a possible interest rate rise after the Federal Reserve's Open Market Committee meeting on March 25.

On Wednesday the Fed's Beige Book, its briefing book for the meeting, should offer clues.

However, the week should also produce further signs that Japan and Germany are starting to rise from the economic morass.

Some of the economic figures from Germany last week, including orders, showed signs of life, although they failed to buoy the D-Mark. Now the market expects strong German retail sales figures for January.

In Japan on Friday, fourth-quarter GDP is expected to show growth of about 3.5 per cent year-on-year and the consumption component its first rise in three quarters.

Mr Robert Rubin, US treasury secretary, could also buoy the yen against the dollar if he expands on his warnings last week over Japan's growing trade surplus – the main reason for which is the yen's steady fall against the dollar since April 1995.

Bank of Japan officials are wondering when the market will focus on the trade figures and start buying yen.

Data on the US economy are expected to show strong February retail sales on Thursday and industrial output on Friday. If Friday's producer price report shows signs of the inflationary pressures Fed chairman Mr Alan Greenspan has been warning about, the betting on a rate rise will increase.

On Wednesday the market will watch South Africa's budget.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Western Resources (US)	ADT (Bermuda)	Security	$3.5bn	Cash element increased
Interim Services (US)	Michael Page (UK)	Business services	$560m	Sector consolidating
Castle Tower (US)	BBC Transmission (UK)	TV transmission	$397m	Privatisation continues
Dickson Concepts (HK)	Barney's (US)	Retailing	$240m	Rejected by creditors
Hicks, Muse, Tate & Furst (US)	Forward Group (UK)	Computer components	$209m	Buying Europe platform
GGT (UK)	BDDP (France)	Advertising	$155m	Associated cash raising
Sage (UK)	KHK Software (Germany)	Computer services	$65m	Buying German dominance
IMI (UK)	Wilshire Corp (US)	Drinks dispensing	$39m	Private buy

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, March 7, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7622.33	4750.00	2763.40	3995.20
Albania	(Lek)	221.449	138.000	80.2839	116.166
Algeria	(Dinar)	92.1115	57.4010	33.3940	47.0712
Andorra	(French Fr)	9.2980	5.7930	3.3703	4.7505
	(Sp Peseta)	233.412	145.455	84.6234	119.279
Greece	(Drachma)	432.675	269.630	156.867	221.108
Greenland	(Danish Krone)	10.5116	6.5505	3.8110	5.3717
Grenada	(E Carib $)	4.3327	2.7000	1.5708	2.2141
Guadeloupe	(Local Fr)	9.2980	5.7930	3.3703	4.7505
Guam	(US $)	1.6047	1	0.5818	0.8200
Pakistan	(Pak. Rupee)	64.3183	40.0799	23.3179	32.8672
Panama	(Balboa)	1.6047	1	0.5818	0.8200
Papua New Guinea	(Kina)	2.2195	1.3831	0.8047	1.1342
Paraguay	(Guarani)	3401.97	2120.00	1233.35	1738.49
Peru	(New Sol)	4.2058	2.6210	1.5249	2.1493
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 45p/minute cheap rate, 50p/minute at all other times.
Friday, March 7, 1997

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

ENGINEERING - Cont.

GAS DISTRIBUTION

HEALTH CARE

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Mar 7		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.4115	-0.0848	009 - 220	19.5177	19.3499	19.368	2.7	19.3115	2.1	-	-	103.4
Belgium	(BFr)	56.8739	-0.275	512 - 969	57.2060	56.7250	56.7488	2.6	56.4888	2.7	55.1838	3.0	103.3
Denmark	(DKr)	10.5116	-0.0518	059 - 173	10.5738	10.4818	10.4896	2.5	10.4481	2.5	10.2361	2.6	105.6
Finland	(FM)	8.2321	-0.0314	255 - 387	8.2730	8.2090	-	-	-	-	-	-	83.1
France	(FFr)	9.2960	-0.0471	907 - 013	9.3519	9.2722	9.2738	2.9	9.2302	2.8	9.0131	3.0	106.2
Germany	(DM)	2.7583	-0.0121	568 - 597	2.7743	2.7491	2.7517	2.9	2.7382	2.9	2.6714	3.2	104.8
Greece	(Dr)	432.675	-1.853	460 - 890	434.909	431.492	-	-	-	-	-	-	68.3
Ireland	(I£)	1.0321	-0.0024	314 - 327	1.0362	1.0313	1.0318	0.3	1.0309	0.5	1.0243	0.8	102.5
Italy	(L)	2732.32	-15.06	099 - 366	2749.48	2722.21	2735.72	-1.5	2740.57	-1.2	2743.37	-0.4	76.1
Luxembourg	(LFr)	56.8738	-0.275	512 - 963	57.2080	56.7250	56.7488	2.6	56.4888	2.7	55.1638	3.0	103.3
Netherlands	(Fl)	3.1063	-0.0126	049 - 077	3.1231	3.0964	3.0982	3.1	3.0824	3.1	3.0069	3.2	102.7
Norway	(NKr)	11.1346	-0.0519	295 - 396	11.2596	11.0289	11.1101	2.6	11.0616	2.6	10.8361	2.7	101.2
Portugal	(Es)	276.554	-1.218	388 - 720	278.044	275.760	276.694	-0.6	276.979	-0.6	-	-	94.6
Spain	(Pta)	233.412	-0.94	315 - 508	234.640	232.780	233.546	-0.7	233.412	0.0	231.937	0.6	77.7
Sweden	(SKr)	12.3464	+0.0057	365 - 562	12.3739	12.2735	12.3274	1.8	12.2879	1.9	12.0919	2.1	84.4
Switzerland	(SFr)	2.3830	-0.0172	814 - 846	2.3938	2.3715	2.3742	4.5	2.3563	4.5	2.2721	4.7	102.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	98.1
Ecu	-	1.4169	-0.0065	160 - 178	1.4243	1.4126	1.4147	1.9	1.41	1.9	1.3849	2.3	-
SDR†	-	1.171490	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6039	-0.0079	034 - 044	1.6157	1.6028	-	-	-	-	-	-	-
Brazil	(R$)	1.6890	-0.008	884 - 896	1.7008	1.6880	-	-	-	-	-	-	-
Canada	(C$)	2.1950	-0.0045	939 - 961	2.2045	2.1899	2.1891	3.2	2.1784	3.0	2.1338	2.8	85.7
Mexico	(New Peso)	12.8681	-0.0825	561 - 801	12.9765	12.8480	-	-	-	-	-	-	-
USA	($)	1.6047	-0.0074	042 - 052	1.6160	1.6029	1.6038	0.7	1.602	0.7	1.5952	0.6	104.3
Pacific/Middle East/Africa													
Australia	(A$)	2.0319	-0.0182	306 - 332	2.0520	2.0305	2.0318	0.1	2.031	0.2	2.0289	0.2	98.8
Hong Kong	(HK$)	12.4247	-0.0587	200 - 294	12.5127	12.4121	12.42	0.4	12.4091	0.5	12.3689	0.4	-
India	(Rs)	57.5318	-0.2683	737 - 898	57.9100	57.4680	-	-	-	-	-	-	-
Israel	(Shk)	5.4042	-0.0233	962 - 121	5.4338	5.3958	-	-	-	-	-	-	-
Japan	(Y)	195.685	-0.318	568 - 802	195.980	194.430	194.715	5.9	192.855	5.8	184.245	5.8	124.7
Malaysia	(M$)	3.9824	-0.0087	803 - 844	3.9998	3.9784	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2767	-0.0218	751 - 782	2.2965	2.2717	2.2796	-1.5	2.2847	-1.4	2.3049	-1.2	117.0
Philippines	(Peso)	42.2398	-0.1918	905 - 890	42.5000	42.1808	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0184	-0.0274	162 - 205	6.0584	6.0118	-	-	-	-	-	-	-
Singapore	(S$)	2.3007	-0.0066	991 - 022	2.3198	2.2978	-	-	-	-	-	-	-
South Africa	(R)	7.1562	-0.0304	515 - 608	7.2057	7.1612	-	-	-	-	-	-	-
South Korea	(Won)	1395.29	-6.39	164 - 893	1404.64	1391.16	-	-	-	-	-	-	-
Taiwan	(T$)	44.1293	-0.2182	834 - 751	44.4400	44.0718	-	-	-	-	-	-	-
Thailand	(Bt)	41.6500	-0.2158	969 - 031	41.9190	41.5630	-	-	-	-	-	-	-

† Rates for Mar 6. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 7		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£
Belgium	(BFr)	100	18.48	16.33	4.850	1.815	4804	5.465	19.57	486.4	410.4	21.72	4.190	1.758
Denmark	(DKr)	54.11	10	8.835	2.624	0.982	2599	2.957	10.59	263.2	222.1	11.75	2.267	0.951
France	(FFr)	61.24	11.32	10	2.970	1.111	2942	3.347	11.99	297.9	251.3	13.30	2.566	1.077
Germany	(DM)	20.62	3.811	3.367	1	0.374	990.6	1.127	4.036	100.3	84.63	4.478	0.864	0.363

[illegible]

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.16	94.20	+0.04	94.22	94.10	91,643	429,458
Sep	93.94	94.00	+0.06	94.02	93.93	92,976	319,903

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.89	94.91	+0.02	94.91	94.87	376	2,982
Jun	94.72	94.75	+0.02	94.77	94.67	166	4,537
Sep	94.52	94.56	+0.05	94.56	94.52	31	2,022

All Open Interest figs. are for previous day

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Irish Bank (GB)	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	Scottish Widows Bank	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Barclays Bank	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Investec Bank (UK) Ltd	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00		
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Cyprus Popular Bank	6.00	●Rea Brothers	6.00		

● Members of London Investment Banking Association
* In administration

OTHER STATISTICS

STOCK INDICES

[illegible]

BANK RETURN

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FT GOLD MINES INDEX

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

	Selling Price		Yield Gr's	Cityline
A$ Accum	A$19.503		5.00	40007
C$ Accum	C$18.849		1.80	40941
Yen Accum	Y2891.4		0.10	41652

Prices for dealing March 7

Jupiter Tyndall (Bermuda) Ltd

Rothschild Asset Management (CI) Ltd

PO Box 242, St Peter Port, Guernsey 01481 713700

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER , PACKAGING & PRINTING

[illegible]

PAPER , PACKAGING & PRINTING - Cont.

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AIM is an investment market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official List.

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind	g	£24½	—	Q545c	♦	May Oct	2.9	—
Barlow	♣	[illegible]	1.2	Q105c	3.3	Jan Jul	9.12	—
Gold Flds Prop R	†	140¼	1.7	Q85c	1.5	Feb Sep	2.96	—
NK Props		65	—	Q63.8c	—	Mar Sep	9.95	—
SASOL	♥	645	—	Q78c	—	Oct	9.93	—
SA Brews		£19½	1.9	Q208c	♦	Jul Feb	2.12	4113
Standard Bank		£25½	2.3	Q284c	3.1	Sep Mar	—	—
Tiger Oats		1052	33.2	Q132c	2.6	Jan Jul	10.6	—
Tongaat-Hulett		771¼	2.7	Q130c	♦	Jan Jun	20.5	—

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Assumed dividend. e Assumed dividend after scrip issue. p Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. B Dividend is paid to whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xs ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

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LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

4 pm close March 7

NEW YORK STOCK EXCHANGE PRICES

1996/97 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32	24¼	AAR	0.48	1.9	21	987	26	25⅝	25⅞	-⅛
48⅝	33	AMP	1.04	2.7	28	2778	39	38⅝	38⅞	+⅛
87½	68	AMR			6	5002	84½	82¾	83½	+1⅛
50½	33½	ASA	1.20	3.3	23	236	36⅛	35⅝	35⅞	-½
60⅛	38⅛	AbbotL	1.08	1.8	24	9389	59⅝	57⅛	59	+1½
17½	12¼	Abitibi Pr x	0.40	2.5	8	834	16¼	16⅛	16⅛	
20¼	13½	ABM Ind	0.40	2.2	17	139	18¼	18	18⅛	-⅛
23	13⅞	Acptocain			11	788	u23⅛	22½	22½	-⅜
65¾	37¼	ACE Ltd	0.72	1.1	10	1648	64⅞	64⅛	64¼	
10⅜	9⅛	ACM Gvt In x	0.90	8.5	11	581	d10¼	10⅝	10⅝	
7⅞	6⅝	ACM GvOpp x	0.63	8.5		172	7½	7¼	7⅜	
9⅞	6⅞	ACM Man x	0.80	9.2		280	9¼	9⅝	9¾	+¼
13⅞	6⅛	Acme Elect				715	6⅞	6¼	6⅝	-¼
21⅝	13⅞	Acme Mills			71	65	18½	18¼	18⅜	+⅛
33¾	27¼	Acordia x	0.80	2.5	15	44	32½	32⅝	32½	
28¾	12	Acuson				1185	28⅛	28¾	28⅞	-¼
21⅛	17⅞	Adams Expr	0.55	2.6	1	288	20⅞	20¾	20⅞	+⅛
39	10¼	AdvMic				24561	u39⅞	37⅝	39½	+1¾
15	8½	Advest Grp			10	401	14¾	14	14½	+⅜
26⅛	8⅛	Advo Inc			28	98	12¼	11⅞	12¼	+¼
68¼	41¼	Aegon	1.16	1.7	20	163	u68¾	68⅛	68¾	+⅛
6¾	3½	Aerfix				253	4⅛	4	4	-⅛
67⅞	40⅝	AES Corp				20	61⅛	61⅛	61⅛	-2
89	57⅞	Aetna	0.80	0.9	66	7209	u89⅞	86	89⅞	+4
44	28¼	Aflac $	0.40	1.0	15	2073	41⅛	40⅞	41¼	+¼
22	17¼	AGL Res	1.08	5.5	14	508	19⅞	19⅝	19⅝	+⅛

Continued on next page

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 7 / Sch)

BELGIUM/LUXEMBOURG (Mar 7 / Frs.)

CZECH REP (Mar 7 / Koruna)

DENMARK (Mar 7 / Kr)

FINLAND (Mar 7 / Mkk)

FRANCE (Mar 7 / Frs.)

GERMANY (Mar 7 / Dm.)

GREECE (Mar 7 / Drachma)

ITALY (Mar 7 / Lire)

NETHERLANDS (Mar 7 / Fl.)

NORWAY (Mar 7 / Kroner)

POLAND (Mar 7 / Zloty)

PORTUGAL (Mar 6 / Escudo)

SPAIN (Mar 7 / Pts.)

SWEDEN (Mar 7 / Kronor)

SWITZERLAND (Mar 7 / Frs.)

TURKEY (Mar 7 / TL Lira)

PACIFIC

JAPAN (Mar 7 / Yen)

AUSTRALIA (Mar 7 / Aust$)

HONG KONG (Mar 7 / H.K.$)

INDONESIA (Mar 7 / Rupiah)

MALAYSIA (Mar 7 / MYR)

NEW ZEALAND (Mar 7 / NZ $)

SINGAPORE (Mar 7 / S$)

SOUTH KOREA (Mar 7 / Won)

TAIWAN (Mar 7 / TW $)

THAILAND (Mar 7 / Baht)

		+/-	High	Low	Yld	P/E
AdvInfF	332	+4	*510	202	2.0	...
BgkBkF	216xd	+4	380	188	1.4	...
BgkLdF	27	...	*45	11.50	0.9	26.7
DSlamF	42	+5	195	37	4.8	6.2
FinOne	23.75	...	158	23	12.6	...
KrTh F	35	+1	135	32.75	4.4	...
LndHsF	123	-4	508	75	4.1	...
PtTheF	47.50xd	+4.50	270	41.75	5.9	6.8
SmCemF	640	+12	1,390	620	3.1	12.7
SiamCl	139	+2	372	124	5.8	...
SmCBkF	134xd	+4	422	127	5.2	6.6
TeleAs	39.75	+1.50	73.50	36.50	...	88.5
ThFrmF	153xd	+5	324	114	3.8	10.6

NORTH AMERICA

CANADA

TORONTO (Mar 7 / Can $)

4 pm close

MONTREAL (Mar 7 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Mar 7 / Rand)

Prices supplied by Extel, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Mar 7	Mar 6	Mar 5	1996/97 High		Low	
Argentina							
General(29/12/77)	20764.68	20454.74	20430.36	21881.30	24/2/97	15287.28	22/8/96
Australia							
All Ordinaries(1/1/80)	2438.5	2447.4	2433.0	2501.70	18/2/97	2085.10	17/7/96
All Mining(1/1/80)	985.4	985.5	984.4	1118.40	8/5/96	893.80	13/12/96
Austria							
Credit Aktien(30/12/84)	411.26	412.05	410.80	412.05	6/3/97	349.39	6/9/96
Traded Index(2/1/91)	1244.01	1250.36	1247.53	1250.36	6/3/97	925.27	2/1/96
Belgium							
BEL20(1/1/91)	2185.81	2193.53	2171.11	2193.53	6/3/97	1574.80	2/1/96
Brazil							
Bovespa(29/12/83)	9181.0	9128.0	9074.0	9181.00	7/3/97	4380.10	2/1/96
Canada							
Metals Minls(1975)	5782.90	5674.34	5669.52	5782.90	7/3/97	4867.47	16/1/96
Composite(1975)	6288.40	6214.70	6203.10	6288.40	7/3/97	4739.78	15/1/96
Portfolio(4/1/83)	3189.52	3133.11	3127.22	3189.52	7/3/97	2327.38	12/1/96
Chile							
IGPA Gen(31/12/80)	5375.66	5328.77	5313.53	5804.33	8/1/96	4888.17	18/12/96
Denmark							
CopenhagenSE(3/1/83)	545.74	546.05	540.44	548.92	20/2/97	388.49	2/1/96
Finland							
HEX General(28/12/90)	2989.31	2962.28	2923.10	2989.31	7/3/97	1891.87	10/1/96
France							
SBF 250(31/12/90)	1812.53	1808.69	1789.17	1812.53	7/3/97	1250.16	2/1/96
CAC 40(31/12/87)	2708.28	2698.92	2686.19	2708.28	7/3/97	1867.85	11/1/96
Germany							
FAZ Aktien(31/12/58)	1162.79	1173.08	1153.88	1173.08	6/3/97	818.56	2/1/96
Commerzbank(1/12/53)	3378.40	3410.00	3352.80	3410.00	6/3/97	2370.30	2/1/96
DAX(30/12/87)	3376.20	3417.80	3384.59	3417.80	6/3/97	2284.86	2/1/96
Greece							
Athens SE(31/12/80)	1319.16	1335.60	1292.17	1463.80	26/2/97	872.90	7/8/96
Hong Kong							
Hang Seng(31/7/64)	13337.35	13418.58	13410.76	13868.20	20/1/97	10204.59	2/1/96
India							
BSE Sens.(1979)	(c)	3876.04	3940.99	4069.26	18/6/96	2745.08	4/12/96
Indonesia							
Jakarta Comp.(10/8/82)	693.80	693.10	688.15	712.86	26/2/97	512.48	2/1/96
Ireland							
ISEQ Overall(4/1/88)	3048.63	3044.84	3027.80	3048.63	7/3/97	2234.61	2/1/96
Italy							
Banca Comm Ital(1972)	760.85	756.19	746.87	787.71	10/2/97	572.21	27/3/96
MIB General(3/1/97)	1142.0	1135.9	1120.0	1197.00	10/2/97	991.00	2/1/97
Japan							
Nikkei 225(16/5/49)	18198.74	18041.33	18273.81	22666.80	26/6/96	17303.70	10/1/97
Nikkei 300(1/10/82)	260.49	258.48	262.48	316.70	25/6/96	251.04	27/1/97
Topix(4/1/68)	1362.28	1354.01	1371.92	1722.13	26/6/96	1326.60	27/1/97
2nd Section(4/1/68)	1683.04	1694.92	1709.80	2251.46	2/7/96	1683.04	7/3/97
Malaysia							
KLSE Comp.(4/4/86)	1251.21	1249.84	1252.28	1271.57	25/2/97	893.18	2/1/96
Mexico							
IPC(Nov 1978)	(u)	3806.98	3762.49	3838.88	25/2/97	2736.36	8/3/96
Netherland							
CBS TRtn Gen(End 83)	675.9	676.4	665.1	676.40	6/3/97	539.58	2/1/96
CBS All Shr(End 83)	514.1	514.3	507.7	514.30	6/3/97	328.70	2/1/96
New Zealand							
Cap. 40(1/7/86)	2288.96	2285.18	2283.26	2440.21	20/1/97	2025.14	7/6/96
Norway							
Oslo SE(Ind)(2/1/83)	1856.49	1858.83	1832.27	1841.49	20/2/97	1259.88	30/1/96
Philippines							
Manila Comp(2/1/85)	3286.45	3279.82	3282.30	3447.60	3/2/97	2578.97	2/1/96
Portugal							
BVL 30(4/1/93)	2615.91	2612.93	2607.54	2620.36	19/2/97	1602.81	2/1/96
Singapore							
SES All-S'pore(2/4/75)	552.10	550.47	550.96	618.37	5/2/96	503.78	21/10/96
South Africa							
JSE Gold(28/9/78)	1416.6	1430.1	1432.7	2030.40	29/5/96	1338.00	3/2/97
JSE Ind.(28/9/78)	8251.6	8278.0	8248.8	8738.30	25/1/96	7588.90	17/12/96
South Korea							
KoreaCompEx(4/1/80)	681.22	678.11	674.90	988.84	7/5/96	611.05	7/1/97
Spain							
Madrid SE(30/12/85)	480.89	473.37	486.21	481.85	17/2/97	323.75	11/1/96
Sweden							
AffarsvarldsGen(1/2/37)	2812.5	2784.8	2752.9	2812.50	7/3/97	1706.60	22/1/96
Switzerland							
Swiss Bk Ind(31/12/58)	2205.54	2195.35	2167.85	2205.54	7/3/97	1918.19	17/1/96
SBC General(1/4/87)	1546.58	1539.81	1521.33	1546.58	7/3/97	1114.47	26/1/96
Taiwan							
Weighted Pr.(30/6/66)	8162.68	8081.00	8019.45	8162.68	7/3/97	4690.22	8/2/96
Thailand							
Bangkok SET(30/4/75)	691.45	676.65	683.72	1415.04	8/2/96	676.65	6/3/97
Turkey							
IMKB Nat 100(1986)	1443.00	1482.00	1372.00	1700.00	27/1/97	386.00	2/1/96
WORLD							
MS Capital Intl(1/1/70)	844.0	840.2	841.5	854.40	25/2/97	725.90	15/1/96
CROSS-BORDER							
Eurotrack 100(26/10/90)	2200.11	2198.85†	2188.43	2200.11	7/3/97	1504.48	11/1/96
Euro Top-100(28/6/90)	1878.94	1872.84	1847.77	1878.94	7/3/97	1393.01	11/1/96
HSBC JC Dragn(31/12/88)	(u)	420.37	421.29	429.46	20/1/97	344.19	2/1/96
MS Emg Europ(7/1/92)	178.94	175.42	176.79	181.33	26/2/97	147.35	2/1/96

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Mar	2700.0	2717.0	+13.0	2728.0	2680.0	19,418	39,949
Apr	2702.5	2716.5	+13.0	2717.0	2690.0	72	906
DAX							
Mar	3405.0	3423.5	+23.5	3428.0	3359.0	29,105	-
Jun	3421.0	3440.5	+23.5	3442.5	3380.0	3,003	-
OMX							
Mar	2183.00	2206.00	+26.00	2208.00	2174.00	4,010	24,139
Apr	2173.00	2193.50	+28.00	2164.00	2164.00	387	1,728
SOFFEX							
Mar	4601.0	4650.0	+48.0	4650.0	4565.0	6,449	24,914
Apr	4580.0	4652.0	+36.0	4652.0	4580.0	455	2,434

** Sat Mar 1 : Taiwan Weighted Price 7983.71; Korea Comp Ex 676.53. Base values of all indices are 100 except: Australia All Ord and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; IMKB Nat 100 - 1; NYSE All Common - 50; Standard & Poor's - 10 and Amex Comp - 100. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Mar 7 - 3419.51 +22.96. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

US INDICES

Dow Jones	Mar 7	Mar 6	Mar 5	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Industrials	7000.89	6944.70	6945.85	7067.46 (18/2/97)	5032.94 (10/1/96)	7067.46 (18/2/97)	41.22 (8/7/32)
Home Bonds	103.25	103.07†	103.05	108.09 (14/2/96)	100.99 (15/7/96)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2447.86	2432.14	2430.44	2447.86 (7/3/97)	1882.71 (18/1/96)	2447.86 (7/3/97)	13.23 (8/7/32)
Utilities	226.88	225.96	228.34	240.85 (22/1/97)	204.86 (30/7/96)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7047.07 (7017.05) Low 6927.00 (6898.80) (Theoretical♦)
Day's high 7018.59 (6987.85) Low 6944.70 (6937.00) (Actual♦)

Standard and Poors	Mar 7	Mar 6	Mar 5	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Composite‡	804.97	798.56†	801.99	818.29 (18/2/97)	598.48 (10/1/96)	818.29 (18/2/97)	4.40 (1/6/32)
Industrials¶	935.04	928.81	934.86	950.86 (18/2/97)	702.07 (15/1/96)	950.86 (18/2/97)	3.52 (30/6/32)
Financial	98.13	94.14	93.89	98.31 (18/2/97)	58.67 (10/1/96)	96.31 (18/2/97)	7.13 (4/9/74)
NYSE Comp.	423.83	420.24	420.67	427.07 (18/2/97)	321.41 (10/1/96)	427.07 (18/2/97)	4.64 (25/4/42)
Amex Comp.	602.06	600.31	600.88	617.81 (22/5/96)	524.20 (16/7/96)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Comp	1311.81	1315.43	1329.09	1388.06 (22/1/97)	988.57 (15/1/96)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	Feb 28	Feb 21	Feb 14	Year ago
Dow Jones Ind. Div. Yield	1.96	1.94	1.92	2.15
	Mar 5	Feb 26	Feb 19	Year ago
S & P Ind. Div. yield	1.77	1.73	1.72	1.87
S & P Ind. P/E ratio	22.55	22.68	22.84	21.05

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron Tech	7,209,800	39¼	-⅜
AT & T	5,903,300	36⅛	-⅛
Compaq	4,354,100	76¾	-1¼
Hewlett Pk	4,232,800	58¼	-1⅛
Amco	4,231,800	3½	-⅛
Pepsico	4,179,200	31¾	-¼
Gen Motors	3,972,300	56¾	+¾
Seagate	3,938,000	45⅝	+⅛
Westinghse	3,727,300	19⅝	+⅜
Merck	3,620,300	93	+¼

■ TRADING ACTIVITY

● Volume (million)

	Mar 7	Mar 6	Mar 5
New York SE	494.917	522.481	518.771
Amex	18.739	19.427	22.935
NASDAQ	(u)	655.241	673.301
NYSE			
Issues Traded	3,338	3,325	3,318
Rises	1,637	1,265	1,599
Falls	876	1,211	916
Unchanged	825	849	803
New Highs	214	148	124
New Lows	20	17	23

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Mar	800.30	807.20	+6.60	810.00	801.00	74,914	181,625
Jun	810.75	814.80	+6.60	817.60	809.40	4,163	41,145
■ Nikkei 225							
Mar	17650.0	18220.0	+200.0	18220.0	17790.0	28,911	181,110
Jun	17790.0	18200.0	+230.0	18200.0	17770.0	38,051	172,606

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Friday, March 7, 1997

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	9.3m	334	+12
Nomura Secs	8.3m	1530	-50
NKK Corp	6.4m	253	+6
Tokio M&F Ins	4.9m	1290	+50
Toshiba Corp	4.3m	670	+4
Mitsubishi Hvy	4.3m	818	-6
Pacific Inds	3.8m	687	+50
Terumo Corp	3.7m	1730	-10
Fuji Heavy Inds	3.6m	587	+10
Sanwa Bank	3.2m	1320	+20

FT GUIDE TO THE WEEK

MONDAY 10

UN meets on human rights

The United Nations Commission on Human Rights, the main UN human rights body, established 50 years ago, begins its annual six-week session in Geneva. The 53-member commission will examine human rights abuses around the world with special reports on, among others, Nigeria, Iraq, Iran, Cuba, Burundi, Rwanda, Zaire and the former Yugoslavia. However, Amnesty International and other human rights groups say the commission, which itself includes representatives of countries accused of abuses, is losing credibility by failing to speak out impartially.

Netanyahu in Russia

Benjamin Netanyahu, the prime minister of Israel, makes his first official visit to Russia, determined to boost trade and economic ties between both countries (to Mar 12). Although the highlight will be a meeting with President Boris Yeltsin, Mr Netanyahu is very keen to meet the Jewish community and strengthen its links with the 750,000 Russians who have emigrated to Israel since 1990. Israel is anxious to encourage more immigration in order to expand its economy.

Zedillo visits Japan

Increasing co-operation in areas such as disaster prevention and the protection of the environment will be among the main objectives of a visit by Ernesto Zedillo, the Mexican president, to Japan (to Mar 14). Although Mr Zedillo's visit will deal primarily with trade and investment, both Mexico City and Tokyo suffer from formidable pollution and the constant threat of earthquakes. Mr Zedillo will also meet representatives of Japan's leading banks – Mexico's state oil, electricity and infrastructure agencies are hungry for funding.

US-Australian thrust

One of the largest US-Australian military exercises since the second world war begins around the Queensland coast. The "Tandem Thrust '97" training operations, at the Shoalwater Bay military facilities near Rockhampton and in the Coral Sea, will involve 21,500 US troops and 5,500 Australians. Although exercises in Queensland are held by the US defence forces biannually, the Australians will be participating for the first time. The exercises, which will last 12 days, follow an agreement last year in which the countries also agreed to set up a new satellite early warning system relay station near Alice Springs.

Military manoeuvres: American and Australian troops join forces for 12 days of exercises around the coast of Queensland

FT Survey

Investing in India.

Public holidays

Australia, Belize, British Virgin Islands, Cyprus, Gibraltar, Greece, Russia, Ukraine.

TUESDAY 11

MEPs tackle smuggling

Members of the European Parliament gather in Strasbourg for the monthly full session, which will be dominated by a report that found the EU was losing billions of dollars a year in customs duties because of cigarette smuggling. MEPs are likely to vote for closer customs co-ordination. They will also debate cloning following the cloning of a sheep in Scotland, and French carmaker Renault's controversial decision to close a Belgian factory with the loss of 3,100 jobs.

Chirac in Brazil

Jacques Chirac, the French president, arrives in Brazil on the first leg of a tour of Latin America, accompanied by ministers, members of parliament, businessmen and former footballer Michel Platini – a member of the organising committee of the World Cup, to be held in France next year. Mr Chirac will meet President Fernando Henrique Cardoso in Brasília before flying to Rio de Janeiro to open an exhibition of paintings by Claude Monet and to Sao Paulo. He then visits Brazil's partners in the Mercosur customs union – Uruguay, Bolivia (associate member), Paraguay and Argentina (to Mar 18).

Horse racing

Irish-trained horses could match, or exceed, last year's record seven winners at the three-day Cheltenham festival, starting today, which stages races over fences or hurdles. The leading Irish challenger, Imperial Call, is due to defend the steeplechasing Gold Cup on Thursday. Cheltenham is enormously popular with enthusiasts and corporate sponsors. But anti-cruelty groups will voice their disgust if (as often happens) horses are killed or maimed.

FT Survey

Finland.

WEDNESDAY 12

S Africa attacks deficit

Trevor Manuel, the first South African finance minister from the ruling African National Congress, delivers his first budget speech. Few surprises are expected. After a year of volatility in the capital markets, Mr Manuel has kept few secrets in his efforts to win the confidence of world markets and stabilise the rand. The government is committed to reducing the deficit before borrowing to 4 per cent of gross domestic product in 1997, which leaves little room for manoeuvre.

Sharif increases his grip

The Pakistan Moslem League (PML) of Nawaz Sharif, the prime minister, is expected to win most of the 46 seats up for election in the senate, which has 87 seats in total. The electoral college for the senate consists of the provincial legislatures in Pakistan's four provinces and the lower house of parliament in Islamabad. The PML has an absolute majority in both.

Tsang delivers HK budget

Donald Tsang, Hong Kong's financial secretary, delivers a budget which will span the territory's return to Chinese sovereignty in July. With the priority of Britain, China, and the Hong Kong government to signal continuity in economic policy, few surprises are expected. Mr Tsang has predicted robust GDP growth of 5.5 per cent this year, while officials have announced a windfall from land sales. With a large budget surplus and limited spending increases likely, there is some speculation the already-low tax rates could be trimmed.

Skiing

World cup finals at Vail, Colorado, US (to Mar 16).

Public holidays

Liberia, Mauritius.

THURSDAY 13

Candles at Dunblane

People in the Scottish town of Dunblane commemorate the first anniversary of the massacre of 16 children and their teacher by placing lighted candles in their windows. The children and their teacher, Gwen Mayor, were shot dead in a primary school gym by Thomas Hamilton, a sacked scout leader, who then killed himself.

Hanover computer fair

CeBIT, the world's biggest computer exhibition, opens in Hanover, providing a platform for more than 6,800 exhibitors – 300 more than last year. The future of the Internet will be an important theme. However, the exhibition will also be a showcase for the new telecommunications companies which are limbering up in preparation for the liberalisation of the German market next year. About 40 per cent of the exhibitors are from overseas, the largest contingents being from the US, Taiwan and Britain (to Mar 19).

Rio, five years on

Non-governmental delegates from 80 countries meet in Rio de Janeiro, five years on from the Rio 92 world environment conference (to Mar 19). The Rio+5 conference is to review progress on ecological issues and report on the implementation of Agenda 21, signed by more than 100 heads of state at the 1992 summit. Delegates are expected to criticise delays in enforcing this and other accords. The conference is intended as a preparatory session for a meeting of the UN Commission on Sustainable Development in April and a special session of the UN General Assembly in June.

Golf

Portuguese Open, Lisbon (to Mar 16).

FT Survey

UK Retailing (UK only).

FRIDAY 14

Tories on launch pad

Brian Mawhinney, the chairman of the British Conservative party, opens its mid-year conference in Bath. The Conservative Central Council will provide the party with a high-profile launch pad for its general election campaign. However, John Major, the prime minister, is not expected to use his speech on Saturday to announce the date of the poll.

Election in Bahamas

Bahamians vote in a general election in which, for the first time in 30 years, Sir Lynden Pindling, the country's elder statesman, will not be a factor. He is ill and has taken a back seat in politics. Hubert Ingraham, the prime minister, says that, if returned to office, it will be his last in politics. Mr Ingraham's Free National Movement will be challenged by the Progressive Liberal Party of Bernard Nottage, who succeeded Sir Lynden as party leader. The election follows a year of economic expansion, estimated at 3 per cent, in this archipelago of 250,000 people. The growth was in tourism and financial services.

Cricket

Second Tests: South Africa v Australia, Port Elizabeth (to Mar 18); New Zealand v Sri Lanka, Wellington (to Mar 18); West Indies v India, Port-of-Spain (to Mar 18).

FT Surveys

Latin American Finance; UK Mid Market Companies (UK only).

Public holidays

Andorra, Liberia.

SATURDAY 15

Election test in Nigeria

Multi-party local elections in Nigeria provide the first real test of the military government's declared intention to hand over to civilians by October next year. Five parties are competing. However, voters' registration ended amidst widespread allegations of fraud, corruption, violence and incompetence; and the politicians have mainly bickered over who should hold which internal party office. Nigeria's last effort at competitive elections was annulled by the army four years ago. Now there is speculation that the man behind that decision, General Sani Abacha, the current head of state, may be preparing to stand for election himself.

Rugby union

Five Nations' championship: Wales v England, Cardiff; France v Scotland, Paris.

Public holidays

Belarus, Hungary, Liberia.

SUNDAY 16

Writers' Guild awards

After Emma Thompson's debut script for *Sense and Sensibility* won last year's top US screen-writing award, all-American efforts should have a strong chance at the Writers' Guild gong ceremony in Hollywood. Despite the elegance of Douglas McGrath's *Emma*, and the nomination of *The English Patient*, the US competition is tough. The FT's off-the-cuff critic favours Joel and Ethan Coen's shades-of-black comedy *Fargo* over Cameron Crowe's *Jerry Maguire*. *Shine* is said to be in with a hope – and John Hodge's *Trainspotting* would have a good chance if only more Americans understood the patois.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: UK producer price inflation should have remained depressed in February because of the strong pound. The market is looking for a 5.8 per cent annual fall after a decline by 6.3 per cent in January. Last week's purchasing managers survey also suggested that prices are under pressure.
Tuesday: US forth quarter non-farm productivity is forecast to have gone up by an unspectacular 1.1 per cent after a downward revision of forth quarter GDP.
Wednesday: UK industrial production in January is expected to have risen by 2.8 per cent year-on-year after 1.8 per cent in December. The rise in manufacturing output is expected to be markedly lower.
Thursday: The market forecast for headline US retail sales in February is for an annual rise of 3.3 per cent, as the US economy remains buoyant.
Friday: Economists predict a strong annual rise of 3.7 per cent for US industrial production during February. The long list of strong economic data has already heightened expectation of a rise in US interest rates.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Feb producer price input*	-0.1%	-0.5%
Mar 10	UK	Feb producer price input**	-5.8%	-6.2%
	UK	Feb producer price output*	0.1%	0.2%
	UK	Feb producer price output**	1.4%	1.5%
	UK	Feb PPI ex-food, drink, tobacco	0.6%	0.6%
	Canada	Feb housing starts, units	145.2k	145k
Tues	Japan	Jan machinery orders ex-elec, ships*	7.5%	0.2%
Mar 11	Japan	Jan machinery orders ex-elec, ships*	4.9%	-12.8%
	Canada	Jan motor vehicle sales*	-2.0%	5.1%
	US	BOT-Mitsubishi March 8		-0.3%
	US	Q4 productivity revenue		2.2%
	US	Jan wholesale trade		0.2%
Wed	UK	Jan industrial production*	0.2%	0.6%
Mar 12	UK	Jan industrial production**	2.6%	1.9%
	UK	Jan manufacturing output*	0.3%	0.2%
	UK	Jan manufacturing output**	1.5%	1.4%
Thurs	France	Feb consumer price index (prov)*	0.3%	0.3%
Mar 13	France	Feb consumer price index (prov)**	1.7%	1.8%
	US	Feb retail sales	0.5%	0.6%
	US	Feb retail sales ex-auto	0.5%	0.4%
	US	Initial claims March 8		310k
	US	State benefits March 1		2,377k
	US	Q4 current account		-$48bn
	US	M1 week ended March 3		$4.1bn
	US	M2 week ended March 3		$1.1bn

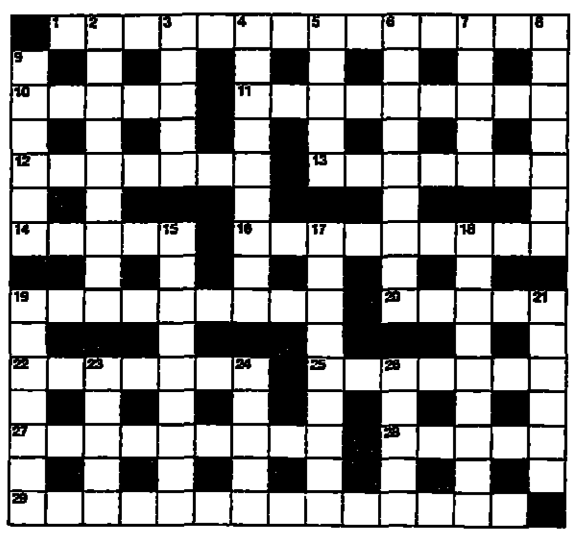
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Thurs	US	M3 week ended March 3		$1bn
Mar 13	US	Feb monthly M1		-$1.3bn
	US	Feb monthly M2		$16.7bn
	US	Feb monthly M3		$30.4bn
Fri	Japan	Jan overall personal consumer expend**	0.2%	-0.8%
Mar 14	Japan	Jan pers consumer expend (workers)**		-0.8%
	Japan	Jan income (workers)**		2.8%
	France	Dec current account	Fr9bn	Fr8bn
	US	Feb producer price index	0.1%	-0.3%
	US	Feb PPI ex-food and energy	0.1%	unch
	US	Jan business inventory	0.2%	-0.1%
	US	Feb industrial production	0.3%	unch
	US	Feb capacity utilisation	83.4%	83.3%
	US	Feb bank credit		11.4%
	US	Feb C and I loans		5.9%
During the week...				
	Germany	Feb final cost of living west*		0.5%
	Germany	Feb final cost of living west**		1.9%
	Germany	Feb final cost of living pan-Ger*	0.4%	0.5%
	Germany	Feb final cost of living pan-Ger**	1.7%	1.8%
	Germany	Jan retail sales,real not†**	1.5%	-4.4%
	Germany	Jan retail sales, real †*	2.1%	-3.2%
	Japan	Feb Tokyo deparment store sales**		-1.7%
	Germany	Feb wholesale price index*	0.4%	1.2%

*month on month, **year on year, †seasonally adjusted. Statistics, courtesy MMS International

MONDAY PRIZE CROSSWORD
No.9,320 Set by DANTE

ACROSS
1 Celebrate moving on, take him a gift (4,1,5,2,2)
10 Go in for chips without fish (5)
11 A regiment prepared to shoot (9)
12 Now to get something for Christmas (7)
13 They get taken in by foreigners (7)
14 Actor in a run (5)
16 I made case out for schools (9)
19 Wounding glances, maybe (9)
20 Do well, getting about ninety fish (5)
22 Having cut down, Jack, terribly thin, gains a stone (7)
25 Irreverence shown by cheeky child I have yet to reform (7)
27 Distribute circular about university courses (9)
28 A blow to Wilde's initial enthusiasm (5)
29 What is required for a water bed? (6,8)

DOWN
2 Teach unit members to become reliable (9)
3 Strange how mill-race ends in the lake (5)
4 Try to reach agreement, but get into trouble over one point (9)
5 Over-indulge in food or in egg flip (5)
6 "Dog gets bit" – final news item (9)
7 Instinct for money in the market (5)
8 Setting out, steer ship inside locks (7)
9 Holy place that may throb with intense activity (6)
15 Atlantic island rising above the horizon (9)
17 Isn't, alas, a reformed enemy (9)
18 Grows wrinkled (9)
19 Doesn't accept imperfect articles (7)
21 Kept quiet in defeat (3,3)
23 It provides seedless apples for cooking (5)
24 Transport a number of plant stems (5)
26 It may give you a call about opening up (5)

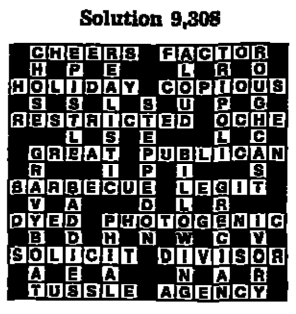


Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday March 20, marked Monday Crossword 9,320 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 24. Please allow 28 days for delivery of prizes.

Name...

Address..

Solution 9,308



WINNERS 9,308: Miss M. K. Beal, Southsea, Hampshire; C. M. Betterton, London SE12; D. A. Carey, Maidenhead, Berkshire; D. A. Robertshaw, Knaresborough, North Yorkshire

NYSE PRICES

4 pm close March 7

Continued from previous page

1996/97 High	Low	Stock	Div.	Yld %	P/E	Sls 100s	High	Low	Close Price	Chng Prev. Close
5	3	Zapata				222	4¾	4⅝	4¾	
25¾	5⅞	ZenithEl				507	10¼	10	10	
28⅞	21⅛	Zenith Nat	1.00	3.6	13	123	27½	27⅛	27½	+⅜
7⅞	6½	Zenix Inc	0.73	9.9		35	u7⅜	7⅜	7⅜	+⅛
23¾	15⅝	Zero	0.12	0.5	17	58	22⅝	22⅜	22⅜	
28	18½	Zurn Ind	0.40	1.6	15	110	25	24⅝	24¾	
11⅞	10½	ZweigFd♣	1.12	10.0		668	11¼	11⅛	11¼	
9	8	Zweig Tot	0.84	9.9		671	8½	8⅜	8½	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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AMEX PRICES

4 pm close March 7

NASDAQ NATIONAL MARKET

4 pm close March 7

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
KLA Instr		19	16887	41¼	39½	40	+1
Koll A			586			0.18	
Komag		14	5686	32¼	29¼	29¾	-2½
Kulicke S			3671	25½	24¼	24⅜	-⅞

- L -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Laborw	0.72	61	107	18½	18	18	
Ladd Furn			139	15⅝	15⅛	15	
Lam Rsch		11	8792	38¼	36⅝	36¾	-1
Lancaster x	0.72	16	594	46¼	45¼	45⅜	-¼
Lance	0.96	23	239	19	18¾	19	+¼

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow		14	39	18¾	18¼	18¼	-¼
Rallys			2235	2	2½	2⅝	
Raymond	0.25	14	2484	28¼	27⅝	28	+⅜
RCSB Fin	0.60	12	4533	32⅞	32⅜	32¾	+⅜
Read-Rite			18088	32⅛	30⅜	31⅛	
Recoton		15	287	16⅞	16	16	
RegFinCp			5525	61	59⅛	60¾	+1¼
Repligen			40	1¼	1	1¼	
Repub Ind			19807	37	36	36	
ResrchMed		23	1010	23¾	23⅜	23	
Resound			198	6⅝	6⅜	6⅝	

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		26	13364	47⅛	44	44¾	-2
Xircom		29	10223	19¼	16½	16⅝	-1¾
Xoma Corp			1926	6	6	6	+¼
Yellow			3075	16⅞	16½	16	
York Rsch		18	327	9¼	8⅞	9	-⅛
ZionsUtah	1.76	18	208	126¾	122¾	124	+1¼

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$8.125		0	8.25	8	Innogenetics	US$12.375		66287	12.5	10.5
Artwork Systems	US$10.875		290	11.375	10.25	Mercer Internatl.	US$9.125		0	11.375	9.125
Dr Solomon's ADS	US$24.125	-0.625	0	25	22.75	PixTech	US$5.375		0	6.25	4.75
Esprit Telecom ADS	US$12.25		0	12.5	12						

Prices for 7/3/97.

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